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THE EMPLOYMENT CAPACITY OF AGRICULTURE

BY KARL BRANDT

IN A prolonged period of unemployment, such as the whole world has experienced in the present depression, it is natural that statesmen in every country should consider the practicability of reversing the secular trend of population from the country to the city, not only checking the rural exodus but even planting on the farms a material proportion of the urban unemployed. It is recognized that the process of inventing labor saving machinery has not been checked by the depression and that recovery, while absorbing some part of the existing body of the unemployed, is likely to add a new contingent of workers displaced by technological advance. Agriculture formerly maintained a much larger proportion of the population. Is it not possible that it could be made to maintain a larger proportion in the future?

The object of the present study is to consider whether the economic forces that have operated to expel labor from agriculture have exhausted their potency, and whether counterbalancing forces increasing the employment capacity of agriculture are gaining strength. In the past the chief forces of expulsion have been: (1) The shifting of agricultural production from unfavorable areas, where each unit of production required a relatively large expenditure of labor, to more favorable areas, where the expenditure of labor per unit was less, as for example the shifting of grain production from the more recalcitrant fields of western Europe and the eastern states of America to the virgin prairies, first of the United States, later of Canada, Australia and Argentina. (2) The taking over by industry of many functions formerly performed on the farms or in the adjacent villages, such as slaughtering, milling, etc. This may best be described as a substitution of industrial for rural employment. (3) The direct sub-

stitution of industrial for agricultural products, as rayon for silk and cotton. Among the counterbalancing forces we may mention:

(1) Increasing quantitative demand for farm produce, resulting from increasing population and a rising standard of urban living. (2) Insistence of the consumer on improved qualities, requiring an increasing application of care and labor. (3) The return of industrial processes to the rural environment, as a consequence of decentralization movements made possible by cheap power and motor transportation.

In dealing with so complicated a problem it is necessary to proceed on the basis of simplified assumptions in order to throw light on its various phases. Unfortunately there is virtually no literature on the subject to lighten our task through accumulated data and systematic analysis.¹

I

Let us first assume that the food requirements of a nation are stable not only with respect to the total amount but also with respect to the different items entering into that total. What amount of farm labor will be required to produce this amount of food?

The answer to this question turns first of all on the best obtainable location for the production of the various agricultural commodities. It is here assumed that it is the endeavor of every nation to gain her food with the minimum expenditure, although we recognize that in fact many political or other non-economic aims cause frequent deviations from this principle.

In spite of technical progress in agriculture it remains true that climate and soil are the most important factors in determining the labor cost of agricultural products. Technical progress has, however, opened a much wider range of possible adjustments and adaptation to prevailing climatic and soil conditions. Our judgment as to the excellence or deficiency of a given soil and climate

¹There is a pamphlet by Friederich Aereboe, *Die Bevölkerungskapazität der Landwirtschaft* (Berlin 1927), but this deals with another problem, the capacity of agriculture to maintain a general population.

is today very different from that of our ancestors. And yet it is close to concepts of farmers several thousand years ago. Like the farmers of ancient Egypt and Mesopotamia, we lay particular stress upon the adequacy of the supply of water for the soil. The combination of a sufficient and fairly well distributed rainfall with enough hours of sunshine guarantees almost a perfect location for farming (unless such factors as hurricanes, hail, frost or periodic pests interfere) even if the content of humus, nitrogen, phosphoric acid and potash is deficient, because these can be added artificially. Rich soil and a warm moist climate produce more cheaply, however, than any soils dependent on fertilizers. If on the other hand the nutritive values are abundant a deficiency in the rainfall may be treated as a minor disadvantage if irrigation is practicable. Indeed, the most productive locations for farming have always been and are still today the irrigable deserts. Arid lands, while deficient in humus, are often rich in the soluble mineral constituents of fertility, since there is no leaching of these substances to levels beyond the reach of plant life, as in humid regions. The most reliable and intensive agriculture of earlier times was found in Mesopotamia, Egypt, Bengal, the high lands of Turkestan, Java, the river bottoms of China, Japan, and under the Incas in Peru. In most of these ancient areas of irrigation, intensive agriculture is still carried on as successfully as in the modern irrigation areas in the United States. Also the most reliable and productive part of European agriculture is carried on under irrigation in the Po valley, the Netherlands and the Avignon district.

Vegetables and fruits particularly require special conditions of soil, climate and moisture for the most profitable production. Cotton and other fiber plants and tobacco need plenty of sunshine, good soil and abundant water. With his modern sowing, harvesting and threshing machinery, the farmer is able to carry his production of wheat and barley into semi-arid prairie and even very far north, where the supply of rainfall or soil moisture is scarce, counting on the yield of good years to compensate for

years of drought or early frost and still leave a profit. Most farm crops, however, exhibit special preferences as to soil and climate, and an important cause for the migration of agriculture lies in this fact.

If agriculture moved into the most favorable locations for its several products, following the one aim to produce at the lowest cost, the requirements of human labor per unit of product would decline remarkably, as compared with today's actual results. This would happen even if no labor saving machinery were applied. This means that strong retarding factors have been active to prevent the drift toward the ideal localities. Such factors are the bonds of private property, the risk of settling new regions, the lack of knowledge, tariff barriers and freight rates.

The agricultural history of the United States is rich in examples of the migration of agriculture in search of better soil and climate. Within a century cotton production moved from the Atlantic coast more and more westward so that in the decade 1923-32 Texas produced one third of all the cotton grown in the country. "By 1859 Illinois, Indiana, and Wisconsin were the leading wheat states, during the decade 1923-32 Kansas ranked first. Until the middle of the nineteenth century corn growing was confined to the Eastern part of the United States. The corn belt has steadily shifted to the west and north."¹ The most remarkable instances of this tendency are afforded by truck gardening. We find all over the United States the most rapid movements to better soils and out of season climates.

It is true that the migration of agriculture was in part due to the taking of land into cultivation during the frontier period, but the greatest migrations appeared a considerable time after the settlement of the virgin lands had been finished. In New York state alone, farm land has been abandoned for the past forty years at an annual rate of 100,000 acres. During the past five years about 250,000 acres have been abandoned every year. It is

¹ Dowell, A. A., and Jesness, O. B., *The American Farmer and the Export Market* (Minneapolis 1934).

also true that the migration was to some degree due to the flight from pests and diseases, as the boll weevil in the cotton industry. The main tendency, however, arose out of the search for higher and more certain yields.

What we observe in the United States has its counterpart in the world at large. In spite of tariff barriers, in spite of embargoes, in spite of the limitations upon human migration, and in spite of all the many different attempts at state intervention or planning, we see rapid changes in the distribution of agricultural production among the nations. Dairy production in New Zealand, beef cattle and wheat production in Argentina are two good examples.

These tendencies toward adjustment of agricultural location to the best natural resources are more or less the outgrowth of the classic economic law of costs and price. But similar adjustments are making rapid headway also in the huge territory where the theory of private initiative has been entirely replaced by a rigidly planned economy. Soviet Russia based the Gosplan and the later two Piatiletkas on the system of integral economic districts or belts. Since 1808, when K. J. Arssenjew made the first attempt to establish a system of economic "Rayons," P. P. Semjonow, A. J. Wassiltschikow, A. S. Jermolow, D. J. Richter, A. F. Fortmatow, and E. N. Tschelinzew developed the principle to such an extent that when Lenin spoke in 1920 of an electric power system the principle of "Rayons," or districts, was set up as the skeleton of the future planned economy. This means for agriculture direct pressure to locate the production of commodities at the most efficient spot.

In practice there are often other economic forces that limit the tendency of agriculture to seek out the locations that are most favorable for plant and animal production. The intelligent farmer will assign due importance to nearness to the market center. Land prices and labor costs are higher. But the prices for his products will be better, while farm implements may be bought more cheaply. In cases where we find a wide range of prices for various qualities, especially premiums for freshness, as with high grade

eggs, fluid milk, small fruits and vegetables, the farmer orients himself to the location of consumption, the consumer's price and the share he can get by approaching the consumer as directly as possible. These farmers try to cancel out the disadvantages of high land prices and defect in natural fertility by intensive methods, application of fertilizers and skill.

While the production of small fruits and summer vegetables remains scattered around the centers of population, the specialized orchard industry and out of season truck gardening have shown a tendency to move mainly into the best southern and especially the irrigation regions. That part of the live stock industry which produces butter and cheese or which raises calves or heifers for sale tends toward regions which enjoy a climate with the most extended pasture season. Further, localization with respect to climate and soil alone, with resulting monoculture, would create a condition in which production would involve only a short season and a too extended off-season period without any employment. Such rush-and-leisure farming as we find in the semi-arid wheat region or in some southern vegetable regions can be conducted only where the productivity of the soil and the net profit of the single crop are abundant. Nor does such overspecialized agriculture prosper long. Profits are followed by an expansion of production which sooner or later eliminates them.

We find therefore the general rule that there is a tendency toward the adjustment of the main crop to natural conditions, but with the production of several other commodities, for which natural conditions may be less favorable. Farming in general has resisted the vertical division of labor with the splitting off of single products as well as the splitting of the labor process itself into special performances. There are indeed instances of profitable monocultures, such as orange growing in California. These depend, however, upon special conditions that make it possible to check overproduction. Monoculture of deciduous fruits has never been prosperous through any extended period of time.

Even so brief a survey drives home the fact that the shifting of

agriculture toward more productive locations has in the past reduced the labor cost per unit of product and in so far has reduced the capacity of agriculture to employ labor. In the United States, where there are no political barriers to migration of agriculture and where the population has developed a high degree of mobility, it might be assumed that agriculture is already well adjusted to the conditions making for localization. But this is clearly not the case. There is much that is accidental and traditional in the existing set-up of American agriculture. More than a million farmers are still clinging to marginal farms, while much excellent land is still undercultivated. Moreover, the progress of agricultural technique, the development of more productive plants and superior animals, the application of the Diesel engine to irrigation with subsoil water in regions of irregular rainfall, add to the advantages of the more productive land. There can be little question that the next decades will witness a steady drift toward superior locations, with a consequent decline in the labor expenditure per unit of agricultural production. Given a stationary consumption this would mean a reduction in the employment capacity of agriculture.

II

Another force which has operated to reduce the employment capacity of agriculture has been the splitting off of functions formerly performed on the farm and their assignment to industry. Milling, baking, slaughter of meat animals, curing of bacon and other meat, sausage making, milk separating, butter making, cheese making, canning of fruits or vegetables, and many other similar functions have been abandoned by the farmer. These functions were transferred to industry. One craftsman after another had to migrate from the rural districts into the cities, most of them to become industrial workmen. The carpenter, blacksmith, tinsmith, keymaker, ropemaker, basketmaker, wheelmaker, potter, tilestone maker, woodturner, thatcher, broom maker, cooper and many others left the country communities where they

had formed the middle class of the economic life. These changes are radical in their ultimate effects because they destroy slowly but surely the life of the small country communities, which have been for centuries the cells of the life of nations. They shift more and more employment from the country districts and concentrate labor within the big industrial centers. During the decade 1920-30, the migration to the cities in the United States amounted to about 5,000,000 net. Most of these migrants came from the farms and about 1,300,000 more moved from farms to rural non-farm territory.¹

In a sense the application of irrigation means a substitution of non-agricultural for agricultural labor. The construction of dams, of long distance canals and laterals, the leveling and ditching of the fields, represent a share of industrial labor in the production of the crops, and reduce the share of farm labor proportionately. The same thing holds of the drainage of swamp lands. Even the use of artificial fertilizer may be viewed from this standpoint as a substitution of industrial for farm labor.

So also with the application on the farm of labor saving machinery. Whether it is a steel plow the farmer buys instead of using the homemade wooden one, or tractors, or barns, or farm implements at mail order houses, he curtails the capacity for employing labor in agriculture and transfers labor and jobs to the industries.

The American farmer leads in the replacement of draft animals or human labor by motor power. What this mechanization means may be seen in harvesting and threshing, where the requirement of man power has been reduced from 35-50 hours originally down to three quarters of an hour per acre today. Dowell and Jesness estimate that the beet lifter, the milking machine, the corn harvester and the haystacker displace about 50 to 80 per cent of the workers as compared with the hand method. They estimate the displacement at 85.7 per cent up to 99.1 per cent for the following

¹ Baker, O. E., "Rural-Urban Migration and the National Welfare" in *Annals of the Association of American Geographers*, vol. xxiii, no. 2.

machines: mowing machine, potato planter, tractor gang plow, self-binder, threshing machine, cotton harvester, combine harvester and thresher, corn sheller and seed drill.¹

Even the migration of agriculture toward the locations with the lowest cost of production may be regarded as involving a substitution of non-agricultural for agricultural labor. In so far as this migration lengthens the distance between farmer and consumer it has fundamentally changed the division of the consumer's price. While the farmer formerly received either the consumer's price in full or at least a fairly high portion of it, he has now to share with the whole range of other people who build the trade chain. Trucking agencies, railroads, insurance companies, bankers, brokers, wholesalers, dealers, retailers, peddlers and many others participate in the retail price of food, while the share of the farmer contracts more and more. In the case of vegetables and some fruits this share went down to less than 10 per cent in the average of several years.

Viewed broadly this process of substitution of industrial labor for agricultural, which has been operating with an accelerating tempo through the last seventy-five years, promises to continue to operate through the calculable future. The American farmer already leads the world in mechanization and motorization, but even here further progress is inevitable. His technique of fertilization and his utilization of waste are inferior to the best European technique. There are great areas in which production could be increased immensely by a bold employment of irrigation and artificial fertilizers. This points inevitably to a narrowing of the employment capacity of agriculture, again on the assumption that consumption remains stationary.

At the same time outsiders are also diminishing the employment capacity of agriculture. Inventors, engineers, chemists, biologists, physicists, are straining their brains to substitute industrial products for farm products. Lard, tallow and rapeseed oil have been replaced by mineral oil as fuel for lamps; wood and peat

¹ Dowell and Jesness, *op. cit.*

have been replaced by coal, leather and hides by rubber. But there are new and more far reaching attacks pending. Sulphit-spirit, rayon and woodsugar (Bergius) are examples. Sulphitspirit replaces alcohol which is distilled from potatoes or grain, rayon replaces silk, and woodsugar is converted cellulose to be used instead of feed grain or other carbohydrates for hogs or any other animals to be fattened. The substitution for butter fat of whale oil margarine may be mentioned in passing. New inventions which are now impending are the creation of artificial wool and artificial cotton made of wood as raw material. It is irrelevant whether the German products "woolstra" and "vistra" already represent the final competitive substitutes. A summary of the triumphal progress in the perfection of rayon up to our day hints at the open possibilities for wool and cotton substitutes and the development of superior qualities. If one of these substitutes should conquer the market for the original product by lower prices and the same quality, or by better qualities (mothproofness or dyeability) even at higher prices, the struggle would inevitably end in a radical curtailment of the population capacity of agriculture by starving cotton and wool production or at least depressing them to unbearably low labor returns. It is obvious that all these brilliant achievements of human invention transfer labor from agriculture to industry.

Again, millions of the unemployed, who had been consumers when employed, shifted into agricultural production by intensive gardening on waste land in or around the cities. In Germany the *Schrebergarten*, designed for recreation, was the promoter of this rapid emergency shift, which conquered a good deal of the market demand for agricultural products. In many cities of the United States community gardens established during the depression have cut into the demand for local production of garden truck.

III

In the foregoing discussion it has been assumed that the demand for food remains stable both with respect to total amount and

with respect to the items making up the total. This assumption, however, does not correspond with realities. The growth of population increases the number of consumers. In spite of the declining birth rate in many of the civilized nations population still grows at a considerable rate. Even if we omit China, India, the Malayan Islands and Soviet Russia, the rest of the nations are likely to have a fairly good average growth for some decades. The population of the United States grew during 1933 by 800,000 as the result of the excess of births over deaths. The German population still grows about 400,000 per annum. If we assume that the habits of nutrition and purchasing power do not change, the growth of the population somewhat counteracts the shrinkage of the employment capacity of agriculture resulting from the forces discussed above. Agricultural progress and growth of population are two variable factors whose relative rate of development determines whether a balance shall be maintained or expansion or contraction shall take place.

The situation becomes more favorable for the farm population when we abandon our assumptions of stable habits of nutrition and of stable purchasing power in the non-farming population. Along with the development of food resources by agriculture, the consumer has changed his requirements for food. Rising purchasing power has not changed man's demand for food measured in calories except among the very poor, but it has stimulated a shift to the more valuable, more easily digestible, more wholesome and palatable varieties of provisions.

It is true that a considerable part of the population cannot afford to buy sufficient food to avoid malnutrition, especially of the youth. So long as this condition obtains we cannot speak of an absolute overproduction of food. Experience shows, however, that the demand for food of a nation as a whole changes very slowly. In the United States the national income grew very considerably between 1900 and 1931. During the same period, the per capita consumption of food remained stationary or declined.¹ The

¹ *Ibid.*

per capita consumption of cereals and of meats has declined, while the consumption of sugar and milk has exhibited a rising trend. The consumption of leafy vegetables increased about 70 per cent during the last decade.

If we weigh all the various factors influencing the food demand in the United States, we cannot but assume that no marked changes in the average consumption of all foods will occur within the coming decades, although the per capita consumption of some individual commodities may change sharply. It would lead us beyond the scope of the present inquiry to enter into details of the interrelationships between income, size of families, social standards, competing demands for industrial goods, dwellings, and other services on the one side, and quality and quantity of food consumption on the other. The reader may take it for granted that the conclusions presented above, derived from research on thousands of household accounts, are valid.¹

The elimination of hard physical labor by the machine has resulted in a reduction in quantity of food required. No factory worker could devour the vast quantities of fats and carbohydrates that were required by the old-time logging crews in zero weather. On the other hand a trend toward greater variety and better qualities of food has been in evidence for centuries among the upper and middle classes in western civilization, and in recent decades this trend has operated with accelerating force among the masses. The shift in consumption entails a corresponding shift in production. The adjustment of food habits is, however, at first rather slow, and lags considerably behind the development of economic power. When nations formerly mainly agricultural begin to industrialize, labor remains at first at the stage of the old habits of inadequate nutrition. But in the long run the shift in consumption is accelerated and becomes a potent force, especially after the primitive stages of industrialization have been

¹ Jasny, Naum, *Bevölkerungsgang und Landwirtschaft* (Berlin 1931); Burgdörfer, Friedrich, "Bevölkerungsentwicklung und Absatzgestaltung," and Eisig, Helmut, "Der Verbrauch von Nahrungsmitteln in Deutschland vor und nach dem Krieg," in Friedrich List-Gesellschaft, *Deutsche Agrarpolitik* (Berlin) vol. v.

passed. Then follows a shift to food varieties which represent more labor per unit of nutrition. Vegetables and fruits out of season, fresh eggs, bottled milk, baby beef and baby pork, Camembert and Swiss cheese, contain per unit of weight or even per calory a much greater expenditure of labor than the food varieties which they supplant. This statement remains true in spite of many attempts to diminish the labor expenditure even of these varieties by mechanization. The higher the purchasing power of the masses rises, the more they are able to shift from bread, salt fish, salt meat, seed beans and peas, fat bacon and a few summer vegetables, to dairy products, eggs, fresh vegetables the year round, fruits, etc. And therewith more labor has to be applied in agricultural production.

But with the establishment of a steady demand for the finer varieties of foods a process of mechanization sets in and whittles away the demand for labor. Standardization of fruits and vegetables, regulation of quality of milk and eggs, involve either a high development of producers' cooperation in agriculture or a substantial capitalization of agriculture. In either case there is an impetus to the application of labor saving machinery and to the localization of agricultural production at points where labor cost per unit is lowest.

We may close our survey of the balancing forces making for increase and decrease in the employment capacity of agriculture by the following general conclusion. As matters stand today, with agricultural employment sharply set off against industrial, transportation and commercial employments, we find no ground for forecasting either an absolute increase or an absolute decrease in the employment capacity of agriculture. There can be little question that relatively to other departments of economic life the employment capacity of agriculture will diminish. In his analysis of the rural-urban migration in the United States, Baker makes the following statement: "There were only a few more workers in agriculture in 1929 than in 1899, yet production increased about 50 per cent. The farm population has been almost station-

ary for a third of a century."¹ Recent years have turned the tide. But it is doubtful whether the current migration represents more than an emergency flight from unemployment. "It appears that in 1930, the first year of the current depression, the movement from and to farms almost balanced, that in 1931 there was a net migration to farms of over 200,000, and in 1932 a net migration to farms of over half a million. Adding this gain by migration to the 468,000 estimated excess of births over deaths on farms in 1932, there is indicated a gain in farm population of 1,000,000 during that year."²

The situation appears more grave when we glance at the general problem of population. It has long been known that the highest birth rates appear where economic and social development is retarded. In some parts of the earth, as in India and China, the excessive fecundity of the population is checked in its effects only by an excessive infant mortality. But in countries where the progress of sanitation extends into the areas of retarded economic development, the high birth rate combined with the declining death rate tends to aggravate the pressure of population.

Outstanding examples of this dislocation of the balance of deaths and births are afforded by the recent history of Japan and Italy. A similar situation exists in some parts of the south. The high birth rate in rural districts of both native white and colored results in a steady flow to the cities; or if this way out is checked by general unemployment, the surplus population is forced to remain at its points of origin,³ with the inevitable result of a further depression of the standard of living and of educational standards, which again tends to maintain the high fecundity.

IV

The characteristic feature of farming is that living and business operations are closely combined. How true this is may be illus-

¹ Baker, O. E., *loc. cit.*, p. 67.

² *Ibid.*, pp. 64-5.

³ Lorimer, F., and Osborn, F., *Dynamics of Population* (New York 1934).

trated by the fact that even in highly developed industrial countries, which have based their taxation upon the strict principle that business and private life have to be kept separate, it has not been possible to force bookkeeping upon farmers for purposes of taxation. Many of the cost items in farm production are at the same time items of private consumption. Food and shelter as well as some services (transportation, household help, garden, etc.) are substantial parts of the livelihood. It is a common practice to estimate the value of these items at a very low figure, because of the low market price for them. There is, for example, practically no active demand for farm houses for rent. The same accommodations would cost several times as much in any city. It may be noted that the estimated cost to the government of supplying snug, modern cottages for subsistence homesteads ranges from \$1500 to \$2000, while the cost of supplying apartments for urban workers ranges from \$3500 to \$5000. But the real service of the farm house for the fulfilment of human requirements is quite as valid as the service of a cottage or apartment in the city.

It is obvious that the cash income of the farmer may be smaller than that of the urban worker if the additional services of house and garden are taken properly into account. By placing due emphasis upon these services and exerting every effort to increase the convenience and comfort of the farm house, it might be possible to induce the farmer to take life more easily and divide the national production among more man-days—namely days with less working hours. Farmers still cling to their individualistic right to work up to sixteen hours a day. It is true that the working hours for hired farm labor have been curtailed in many European countries, and even in the United States it becomes difficult to find the oldfashioned hired man who works from daylight to dusk. The competitive struggle has increased the working time in family farms, especially under the influence of the agricultural depression. The most desirable outcome of increased efficiency in farming would be the curtailment of the yearly average of working hours per day. The term "working day" has to be inter-

puted as the year's average. It is of course understood that the length of the farm day has to be adjusted in a measure to the necessities of the season. But the farmer will follow his natural inclination not to be the slave of his work from sunrise to sunset only if his economic situation permits it. He must have sufficient cash purchasing power to pay taxes and interest on mortgages, to procure the industrial requirements of the family, such as clothing, household goods, furniture, etc. He ought to have, moreover, enough purchasing power to educate his children decently and to command medical service, etc. The more these requirements expand the greater will be the farmer's need of cash income. This income he may attain in one of two ways. He may operate a large farm under an extensive system with low yield per acre, or he may operate a limited acreage and aim at a very high yield through intensive cultivation.

Basically, however, the ability of the individual farmer to increase his cash income to meet his expanding requirements for industrial products and services is determined by the distribution of the national heritage of land and the availability of additional land purchases or tenancy. One of the main obstacles to a sound distribution of the land has always been, as Franz Oppenheimer has pointed out, the control of land by feudal landlords and the entail.

The smaller the farms, the larger the number of men who may participate in the national production, but if these are all family farms and no additional land is available the possibility of increasing cash income through intensification of cultivation turns on the wage level for hired labor, unless the farmer chooses to grind himself and his family down by excessive toil. Mere increase in production, it is to be noted, may not yield the required increase in cash income; two farmers may have the same output, but one may flourish while the other fails.

There is an extensive literature on the optimum size of farms, especially by writers on farm management. It seems, however, that most of the discussion of small versus large farms misses the

point. There is not and has never been a size of farm which guarantees success or is responsible for failure. A farm is nothing but a chance for the application of a man's intelligence. The capable man has proved in every country that he can make a living with either a large or a small farm. But a general intensification and increasing capitalization of farming leads to a dilemma, namely the depression of the standard of living for all, or the raising of the standard for the fittest and the ruin of the less fit. The latter was a possible solution so long as the unfit or the weaker farmers could escape into the fields of industry, commerce or transportation with their insatiate demand for labor. But now that the non-agricultural fields are overmanned it has seemed necessary to governments to find ways of maintaining the less fit farmers in agriculture and if possible to place in agriculture additional men recruited from the armies of industrial unemployed.

In principle most of the measures applied in Europe consist of the fixing of quotas for the amount of product which may be sold on the market. This system finds its best illustration in Germany's dairy industry and Denmark's hog industry. Similar methods are applied in a wide range of countries. We need not concern ourselves here with the sometimes very intricate schemes for finding the due quota per month or week for millions of farmers. What is important for our purpose is that the regulation by quotas does not touch the real problem nor lighten the poverty of the farmer, but merely tries to mitigate the social effect through a better distribution among all of the too small cake. The fact remains that the employment capacity of agriculture is too small for the number of people who need to make their living in agriculture. Still more radical measures consist of the suppression of technical progress. But propaganda against machines in agriculture is merely the echo of the machinoclast attitude of reactionary groups in industry.

A much more effective method consists in a strict control of agricultural credit for the purpose of curtailing expansion and excessive competition. This method has the shortcoming that it

does not touch the strongest pikes in the pool, who have sufficient capital of their own. But in general it works. The outcome, however, is the crystallization of unsatisfactory conditions. It is nothing more than an emergency measure. If nothing else is done, it leaves the agricultural population with no hope except the possibility of a resumption of rapid industrial growth, which may be an illusory hope.

We should not underestimate the social importance of the distribution of land among the farming population. The land distribution represents the distribution of chances among the mass of farmers. But even if the distribution of farm land were ideal, and the maximum number of independent farm families participated in agricultural production, this would not materially affect the employment capacity of agriculture. It would be possible to demonstrate that in spite of the ambitious settlement programs of various governments no important progress has been made toward establishing the urban surplus population on the soil, nor even toward retaining the natural increase of farm population on the land.

The conclusion is inescapable: the employment capacity of the farms and rural areas can be increased only by providing for the open country supplementary functions by which the farmer may earn an income additional to the product of his farm. He must be given an opportunity for employment, seasonally or the year around, in nearby industries. Given such opportunities the employment capacity of the countryside could expand indefinitely. The size of farms could be much reduced, as the earnings of industrial labor increased, and thus the number of persons actually taking part in agricultural production could be greatly increased.

The objection will be raised that this program, while increasing employment in the country, would reduce it correspondingly in the city. There is not enough industrial employment to go around as matters stand: redistribution of it would not solve the problem. The objection would be valid if we were forced to assume that

after such decentralization of industry the general economic structure would remain the same, subject as now to the violent fluctuations of the business cycle. If, however, the decentralization of industrial functions served at once to relieve the congestion of the industrial cities and to restore the vitality of rural life, there is every ground for believing that the cycle would be stripped of its disastrous extremes. Reshaping agriculture by a vast program of homesteads and creating new rural communities with a mixed agricultural and industrial economic function would lead toward the reform of the entire economic system. The redistribution of the population now towered vertically in big dwelling and working centers, where most of the families have to live on the shadow-side of existence, is necessary if we are to have a healthy social life. The danger centers of political, economic and social life will gradually be dispersed. The new life in the rural community will have nothing in common with the smokestack city nor with the desolate farmsteads of today. What we shall have is a new form of civilization, deriving its vitality from the rural community, which in spite of the forces of disintegration retains the potentiality of a sound social life.

Such a program of community reconstruction would require extensive capital investments, which would absorb the savings of even a wealthy nation for a long period of time. It is an open question whether capitalism in its present form has not reached virtually the point of saturation in domestic investments, and investments in the countries which are still undeveloped are subject to excessive risk. If this is true the outlook for the restoration of the heavy industries by the conventional process of recovery is far from promising. The first step toward the reshaping of economic life along the lines here suggested would set in motion the forces of investment and construction and give an impetus to the absorption of the unemployed. We should experience recovery, but not a recovery serving merely as a prelude to another depression, quite possibly more disastrous and dangerous than the one under which we are now laboring.

THE PROBLEM OF DEVELOPMENT AND GROWTH IN THE ECONOMIC SYSTEM

BY EMIL LEDERER

VERY little attention has thus far been given in economic theory to the problem of development or growth. The course of the economic process, to be sure, has been analyzed in the theories of dynamics of the economic system, but the question of the forces initiating development has hardly been touched. The dynamic process has been contrasted with the static system and the latter conceived as a circular process in which all the data remain practically the same. This is the view of Clark, Cassel, Schumpeter, Seligman and others. Ricardo and John Stuart Mill had already dealt with statics. They held that static conditions follow after an uninterrupted period of capital accumulation in countries where land supply is restricted and where, therefore, the net product gradually becomes converted into rent. The same idea was suggested by Marx. But on the basis of his dialectic theory of history, Marx held that the development of a higher organic structure of production will lead not to statics but to the collapse of the entire system and to social revolution. Clark formulated a concept of statics which is still used by all economists who believe that the laws of the capitalistic economic system can be discovered only by proceeding from the simple propositions embodied in static production to the more complicated system which grows by its own force. Clark,¹ therefore, considers a process of production in which "men might conceivably produce to the end of time the same kinds of goods and they might do it by the same processes. Their tools and materials might never change and might not alter, either for the better or the worse, the amount

¹ Clark, J. B., *The Distribution of Wealth* (New York 1899) p. 28 and *passim*.

of wealth that industry should yield." In such a system prices as incomes, being totals of prices, would be "natural" or "normal." The terms "natural," "normal" and "static" would be synonymous. One may or may not assume that profits are realized in such a system. In the former case profits are to be conceived as income destined for consumption, like wages and rents. With such an assumption the ground is cleared for the analysis of the forces behind the dynamics of the economic system.

It appears that a tacit agreement has been reached among economists as to the dynamic forces. They agree that an increasing population provided with a reserve land supply will result in an expansion of the production system. Similarly there is no doubt that technical progress brings about an increased total output as well as an increase in total value. Finally, most economists emphasize the elasticity of the modern monetary and credit system, which conditions the dynamic character of our economic organization. Although, however, the general process of dynamics has been discussed, the concrete steps in this process of growth have thus far not been analyzed. This is the object of the following discussion.

The dynamics of the economic system can be conceived in such a simplified way as to make the existing facts almost identical with those of a static system. If we assume that the population increases at the same rate that capital is being accumulated while technical methods remain unchanged, that the increased labor supply and increased capital are distributed among the different branches of production according to their prevailing ratio and finally, that the volume of active money increases in the same proportion as the output, then neither particular prices nor the general price level would change. Such is the case, for example, in an evenly progressing economic system as expounded by Cassel.¹ The problem of the distribution of increased labor and capital in this case is solved from the outset. Moreover there is no danger of any discrepancy between savings and investments.

¹ Cassel, Gustav, *Theoretische Sozialökonomie*, 4th ed., p. 527 ff.

When the dynamic development in the economic system does not proceed evenly we are confronted by the problem of quick and complete reabsorption of capital and labor by the different branches of the production system. The solution to this problem is usually not considered as requiring special premises. There are certain conditions, however, which have to be presupposed, namely that the demand curve of capital is continuous and the velocity of circulation of money remains unchanged. It is further assumed that all elements within our economic system move easily, freely, and with lightning speed, establishing a new equilibrium wherever the existing one is disturbed.

The problem varies with the different phases of the business cycle. While the upward movement lasts, all the available capital will be invested and all the unemployed workers, at least in certain fields, will find suitable jobs. The problem becomes more difficult when, for some reason or other, the economic system sinks into a severe depression and has to take a new start after the losses have been written off.¹

The problem has been treated from a different angle by Rosa Luxembourg. She did not share the general opinion that the demand for capital is continuous and, for practical purposes, infinite. She emphasized one of Mill's points, in believing that in a capitalistic system profits cannot be realized without the destruction of native production in non-capitalistic colonial countries or

¹ This problem has received exhaustive treatment by John Stuart Mill in his discussion of a paper by Wakefield (*Principles of Political Economy*, bk. iv, ch. 4). Mill believed that with the absence of new fields for investment and with a limited land supply, the interest rate on capital would soon almost reach the zero point. Under such conditions there could be no expectation of further accumulation or of further increase in production. There are, however, says Mill, certain counter-acting tendencies: the depreciation and destruction of capital during the depression, technical improvements (especially those which reduce the costs of workers' consumption goods and which do not, at the same time, increase real wages), increase in foreign trade and export of capital. These are the circumstances, says Mill, which work toward enlarging the fields of employment. In wealthy countries a static condition would soon be reached if all these tendencies were absent. But Mill also assumes that development would not be stopped by a reduction in the demand for capital, but by the cessation of the desire for capital accumulation (depending on the interest rate).

of precapitalistic fields in capitalistic societies, such as handicrafts. I think that the problem, as posed by Luxembourg, is a delusive one. She fails to take into consideration that, at least during the upward trend, there is always additional purchasing power in the market due to the increased volume of money, which is able to absorb the increased capital goods produced and at the same time furnish to the producers the monetary equivalent to profits. Although Luxembourg's theory is false in essence, her argument does throw light on the situation existing after a serious depression.

The chief characteristics of such a situation are unused production capacity on the one hand and a long period of unemployment on the other. With great overcapacity in all industries, as exists today, new investments are hardly possible. In the absence of investments the circular process of the economic system reaches a dead point which cannot be overcome by the spontaneous economic forces. This leads to the question how, under these difficulties, it is possible to increase production. The problem arose at various times during the nineteenth century and was ultimately solved after periods of longer or shorter duration. I shall discuss the various solutions, which were also ways of recovery, for all periods of expansion have been simultaneously periods of recovery.

The first kind of solution was offered by spontaneous inventions, technological inventions which supplied the basis for new fields of production and not merely changes in the process of production for reducing costs, especially wages. Through such spontaneous inventions as the bicycle, telephone, telegraph, talking machine, motion picture, radio, medicinal remedies and drugs, fountain pen, automobile, airplane, railroad, electric light, water system, central heating, and the like, new needs were created. In the case of many of these new inventions the production of one commodity merely replaces that of another and the results are similar to those of labor saving inventions. The railroad, for example, took the place of the stage coach, and the automobile

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first replaced the carriage and soon came to encroach upon the field of the railroad. Talking machines came to compete with the musical instrument industry and motion pictures severely shook the basis of the institution of the theatre. The introduction of the radio, similarly, has seriously affected the demand for newspapers, theatres, operas and concerts. At the same time, however, a greater demand was developed for these new commodities than had existed for their predecessors, since they served to satisfy altogether new needs. In the case of the fountain pen, for example, there has developed the new need for a stationary pen adapted to the personal taste of the individual and making it possible to use ink at any time and in any place. In the case of the electric light new opportunities for lighting, not satisfied by gas and oil lamps, were developed, such as the lighting of barns or of roads in the country, and the extensive use of electric light for advertising purposes. Inventions like the bicycle, telephone, telegraph, and numerous medicinal remedies do not bring about competition with other existing commodities and create entirely new needs. If income remains unchanged, of course, the satisfaction of these new needs precludes the purchase of other commodities.

When there is expectation of a sufficient demand for these commodities such spontaneous inventions result in the creation of new branches of production which are incorporated into the existing economic system without any disturbance. Under such circumstances the economic system develops and grows without resulting in a decrease in the existing branches of production.

The economic consequences of such spontaneous inventions are fundamentally different from the effects of technical progress in labor saving devices. Labor saving machinery, in the first place, results in the displacement of workers. The reemployment of these workers elsewhere depends upon a complicated process, the success of which is by no means certain. The theory of automatic compensation finds hardly any support today, even if the completely free mobility of all economic elements is assumed. Economic theory is now generally veering toward the opinion that

under certain conditions labor saving devices act as a brake on the growth of the economic system but that spontaneous inventions, on the other hand, bring about an entirely different process. This process is the subject of the following analysis. The question is whether or not spontaneous inventions result in an increase in the economic process as a whole, in the increase in total output as well as income. Our discussion will be concerned first with the content of such a process and then with the monetary problems involved.

The first step in the process is the building up of a new branch of production, let us say of bicycles. The new industry would be financed by part of the capital available for investment. The financing of the industry would not present any difficulties since there is always available capital, especially at the end of the liquidation occurring during the depression. The new industry, therefore, will soon begin to operate and a permanent additional demand for labor will have been created. This additional demand, moreover, will not bring about the displacement of other workers for the following reasons. The "old" consumers will reduce their consumption but this reduction in demand will be counterbalanced by the demand of the "new" entrepreneurs and workers for the "old" commodities. The "old" consumers who will have reduced their demand for clothing, shoes, food, furniture, and the like, will transfer their purchasing power to the "new" producers, who will, in turn, buy the "old" commodities: There might be some shifting but on the whole the same amount of purchasing power will be spent for the "old" commodities. In this way the new producers will easily be incorporated into the old system without bringing about any serious disturbance of the circular process. Such a redistribution of demand was brought about by the development of the automobile industry in the United States, which made motor cars available at low cost for millions of consumers, whose ways of spending had now to be adapted to the new situation. Spontaneous inventions of this kind have provided an impetus to the expansion of our system of pro-

duction. Rapid recovery after the various depressions during the nineteenth century and the continuous unchecked increase of the national dividend were due mainly to such new inventions which called new and large industries into being. It is sufficient only to recall the periods of large investments in the construction of railroads, in urban development, in public utilities and in many other industries, all of which supplied work for millions of people throughout the world for many years.

Furthermore, this development does not result in any difficulties within the monetary process. In the "cleansing" process during the depression capital is continuously set free and it is especially at the end of such a period of liquidation that investment capital is abundant. Even if this is not the case, however, purchasing power will be withdrawn from other fields of activity. In a modern dynamic system these other fields of economic activity are found in the construction industries. Although in a theoretical analysis all branches of production are extended to the same level of utilization, which is the marginal level, and although, therefore, the same rate of interest will prevail in all investments, still a certain range of preferences will exist. Theoretically, the investments of capital in all the branches of production should shrink with the appearance of a promising new industry, but in practice, capital will be diverted, to a large extent, from the building trades. This means, incidentally, that a greater part of the capital normally invested in building will build up the basis for new permanent jobs.¹ The same is true for working capital which

¹The same holds true in this respect for the consequences of new tariff duties. As far as they keep foreign commodities off the market, new production might successfully be founded. Other conditions remaining equal, export industries will suffer if the tariff succeeds in reducing imports. But in the period of transition new investments will be forthcoming, which will increase the volume of employment if idle capital is available. These stimulated investments may even initiate a period of recovery. That explains in part the improvements in the English situation during the last years. In such a case the real income of the nation will certainly shrink in the long run, with decreasing efficiency of its labor—but in the short run that can be offset by the activation of idle reserves. If, as the case seems to be in England, this development should be connected with shifting industry from one district to another, the stimulating influence of such a tariff will be still greater.

will readily be supplied by the banks, especially after the period of "cleansing." The banks will certainly consider such credits safe, since they will serve to initiate the circular process described above and insure the return of the borrowed working capital.

Even if we assume that the financing of working capital might meet with difficulties, the turnover of the "new" commodities could be accomplished by a slight increase in the velocity of circulation of money. This may be illustrated in the following way. Let A, B, C, D and E represent the "old" branches of production. These "old" commodities are exchanged between the producers and all the people who live on derived incomes. In this circular process money circulates with a definite velocity along certain lines, since all consumers buy the same commodities at the same time. If new producers, F, appear on the market with their commodities, it will not be a difficult monetary problem to dispose of these new commodities. Part of the money in circulation from the incomes of A, B, C, D and E will be used to buy the new commodity, F, from the new producers, F, and this will pay for the wages, profits, and all other services of the "new" producers. The new producers, in turn, will spend their income buying old commodities, counterbalancing the transfer in purchasing power from the old producers. If we assume, for example, that the new commodities constitute at their market prices 5 per cent of all the incomes spent, the velocity of the "income money" circulation will also increase by 5 per cent, while during the business cycle far greater changes in the velocity of circulation usually occur.¹

Even when the working capital for this additional production is financed through bank credit the process may be considered as an acceleration of the velocity of circulation of incomes. Such credit will be extended on the basis of bank deposits, which are nothing else but the cash reserves of the "old" recipients of incomes. When these cash reserves are greater in amount than warranted by the average liquidity requirements of the banks they

¹ Holtrop, M. W., "Die Umlaufgeschwindigkeit des Geldes" in *Beiträge zur Geldtheorie*, ed. by F. A. Hayek (Vienna 1933) p. 194 ff.

will be made available to borrowers and will be used to pay the costs of the "new" producers. After the completion of the production process and the sale of the "new" products the credits will flow back to the banks by the transfer of claims from the accounts of the "old" producers to those of the "new," which thus will be equalized. At the same time the credits which were advanced to the "new" producers will flow to the "old" producers for the purchase of their products and for payment for that part of the "old" production which could not be purchased by the "old" producers because of the shift in consumption. In this way bank credit takes care of all those payments which would otherwise be possible only by accelerating the velocity of circulation. At the end of the period the working credits which were advanced to the "new" producers are paid back and the balances of the "old" producers are restored to their former levels. It thus makes possible the renewal of working credit to the "new" producers. To the extent that the profits of the "new" producers provide sufficient working capital for production the extension of bank credit is no longer required. It is, therefore, merely a matter of terminology whether or not this form of bank credit should be treated as a form of accelerating the velocity of circulation. The only cases in which it cannot be treated in this way are, first, one which actually involves putting new money into circulation as, for example, by using the reserves of the bank of issue, or second, the advancing of credits that will not be repaid because the goods produced find no market.

The rise of such "new" branches of production is of particular significance at the end of a period of depression. They help to overcome the two elements of danger which lurk at the end of particularly severe economic depressions. First, there is the existence of overcapacity in many industries, which retards the restoration of employment in the capital goods industries, and second, there is the rigidity of the rate of interest which, under modern conditions, does not fall fast enough and low enough to bring about a restoration of the demand for capital to the required

level.¹ In a defective circular process the difficulty of finding profitable investment at the prevailing rate of interest creates an additional factor of risk, which still further restricts the field of profitable investment. Only a drastic reduction in the rate of interest could create a sufficient demand for capital for safe investment.

We have considered thus far only the incorporation of the "new" branches of production into the whole economic process. The "old" producers will now endeavor to increase their income so as to enable them to consume the same amount of the "old" commodities in addition to the "new" consumption. Since normally no consumption credits are available they can increase the scope of their consumption only through increased production. This may again be financed through the extension of credit. Should there be room for such possibilities and should the "old" producers (entrepreneurs and salaried wage earners) be able to increase their output by a more intensive process of division of labor, by longer working days, or by increased working efficiency, their efforts in extending consumption will be accompanied by a demand for the increased output of production. We thus can expect a further expansion of the whole output, the directions of which were indicated by the preceding curtailment of consumption.

The process of expansion of production will proceed with particular smoothness and rapidity and in proper proportions if this consumption of "old" products—though not immediately but probably after some period of abstinence—is financed from savings. The additional purchases will first reduce the supplies on hand and then stimulate additional production. Since the existing enterprises, which suffer from overcapacity, and their workers, who are anxious to increase their income, will be called upon to

¹ The situation is different from that envisaged by Mill who believed that when economic growth is arrested the rate of interest sinks rapidly, thereby arresting the process of accumulation, i.e. savings. There is the same effect when the rate of interest does not sink and as a result the demand for capital does not increase or even decreases and when the rate of interest remains above the "natural" rate.

supply this additional demand, the increased consumption will lead without much friction to an expansion of production in proper proportions among these various branches of production whose products are now in greater demand. The additional circular process will gradually lead to a liquidation of the additional credits extended. The resulting new production, therefore, which represents the secondary effect of spontaneous inventions, is of very considerable importance.¹

The construction of the net of railroads throughout the world produced an effect very similar to that of such an invention. We are not concerned here with the significance of the large increase in the demand for capital, which in many countries apparently exceeded the demand of capital for industries. Much more important for our consideration is the effect of the drastic reduction of transportation costs on production. Prior to the construction of railroads the high costs of transportation, except for canal transportation, made shipping of bulky goods over long distances by land prohibitive. The reduction of transportation costs enabled the producers to increase production for more distant markets and this led to an all around extension of all branches of production. Every new market could continue to purchase goods only if it sold its own products at the same time, and conversely the producers of goods for distant markets acquired purchasing power to pay for imports. The railroad thus effected not only a redistribution of the flow of commodities produced in the major regions of the world, but also contributed to a considerable increase in the output of commodities. The lowering of transportation costs, therefore, did not have a retarding effect as a labor saving device, even though labor was saved here too. The reason lies in the fact that in the case of the railroads the labor saved was to an over-

¹ The rate at which this development will proceed will be more rapid the more these products will be produced without additional investment and, therefore, by utilization of existing capacity. Conversely this additional production will reactivate the reserve capacity and thus initiate new investments in the "old" industries and in this way stimulate the whole process in its two main divisions—investments and consumers' goods industries.

whelming degree, perhaps 98 per cent, of the kind hitherto not performed and, therefore, it could not be displaced. The railroad thus had a double effect. It absorbed labor in so far as transportation increased and it created employment by bringing into the economic orbit a new circular process which was harmful to no one.

A similar result may be effected by the lowering of tariff duties. If we assume that a downward revision of tariff schedules will make possible the importation of commodities for which there had hitherto been no demand and which were not produced in the country, and that other goods, for which there was no domestic demand (especially in the case of specific export goods such as glass pearls or special machines for export), will have to be produced as equivalents, then a new sphere of exchange will be created which will absorb a part of the capital and labor reserves.

This effect of foreign trade is due to the fact that the new imports stimulate and satisfy needs that were non-existent before. The effect, however, will be quite different if the imported commodity is also produced in the country and the market for the product, therefore, is curtailed by the importation of lower priced foreign goods. If the home market, which must be our starting point, is in equilibrium and a part of the market is "captured" by foreign producers (textiles, for example) the immediate effect will be the shut down or curtailment on the part of some of the domestic producers. If in a dynamic system this process is distributed over a long period of time, with a sliding schedule of tariff duties, the hard pressed textile industry will perhaps remain stationary and the accretions of capital and labor will be diverted to other branches of production. The textile industry, therefore, will decline, either absolutely or relatively, and the capital and labor which would have gone into the textile industry had the tariff duties remained will flow into the production of other commodities. This will be possible in this case since imports create a demand for export commodities. The real income will be increased through such imports but the absorption of an imported

commodity already being produced at home will not provide the possibility for an immediate expansion of the production system.

If, as in our case, the importation of commodities which are produced in the country of import is accompanied immediately by additional utilization of available labor and capital for the production of export commodities, the producers of export goods will market their products abroad and in turn consume by and large the domestic products hitherto consumed by the workers eliminated from the textile industry. The imported textiles, in turn, will be consumed by those who had hitherto formed the demand for domestic textiles. In place of the dismissed textile workers other workers will find employment, but the shift of employment caused by the change in foreign trade will not open immediate employment possibilities to the dismissed textile workers. The advantages to the consumer in the form of lower prices and hence more ample satisfaction of needs remain, of course, intact.

In addition one has to take into account the changes in the field of capital. If the capital and labor used in the course of developing new production could have been profitably utilized in other spheres of economic activity there is simply a redistribution of production. To the extent, however, that the new production taps capital and labor reserves which would otherwise have remained idle, the deflationary effect of accumulation without investment is removed and the volume of employment is increased during the investment period. This is valid only for this period since there is no increase in the total amount of permanently employed labor. Nor is there a permanent reduction in the yield of capital since, instead of the displaced capital yield, the yield of the newly employed capital appears and this remains at least as high as the capital yield which was destroyed. The case is similar to that of spontaneous inventions within the same field of production and needs.

These considerations lead to still another conclusion. A sudden shift in the demand schedule of vast strata of consumers may lead

to an expansion of total production, to an increase in total income, and to an increase in the total number of employed. Let us assume that, without a change in income, there is a sudden spurt in the demand for textiles and that it is possible to produce these immediately by the full utilization of existing capacity; when, for example, fashion decrees long dresses or other styles involving the increased use of textiles, the shift in consumption can be effected by a restriction of consumption of other commodities. The additional textile goods will then be produced by additional workers who are now in a position to consume those goods which are no longer taken up by the former consumers. A similar effect would be produced by a cold winter which causes an exceptional demand for coal. Coal mining will now claim more workers, and their wages, as well as the profits of the entrepreneurs, will be paid from economies effected in other fields of consumption and they will ultimately find their way into the consumption of those products which were no longer bought in the same amounts by the former consumers on account of the additional expenditures for coal. The increase in the velocity of circulation occasioned by this process will be rather insignificant. A particularly important instance of a shift in demand in modern economy is the demand for "services," which increased the total volume of labor.

This chain of reasoning rests upon the assumption of the existence of a reserve of labor power and a reserve of productive capacity. When such reserves are absent all that takes place is a mere transfer of labor and capital. The demand for the "old" products will decline with their output, prices of the "old" products will remain unchanged, and the consumption of all producers will be changed by the existence of a new commodity now in demand. The "total utility" of all the consumers will be increased, while the number of the employed will not increase.

All these considerations might be held to be invalid since all that would be necessary for the activization of available reserves and for a consequent expansion of production would be to direct consumption into a new channel. In reality, however, it would be

extremely difficult to redirect consumption. Mass expenditures in most countries are absorbed to the extent of at least 90 per cent by rent, clothing, food and taxes. Moreover, even the consumption of so-called luxuries like tobacco, alcohol, motion pictures, contributions to political and social organizations, newspapers, etc., are determined, to a very considerable degree, by social custom. Any real shift toward other commodities which have been produced before but not demanded, will, therefore, occur only rarely and only as a result of far reaching changes in the scale of social values. Such a change occurred, for example, in postwar Germany when sports became the most popular mass activity. Even such shifts in the consumption pattern, however, are not thoroughgoing enough, and, above all, cannot be brought about by measures of economic policy.

In considering the problem of the expansion of the entire economic system the question arises whether the dynamic character of human wants, the desire to consume more, might not in itself lead to an expansion of production in the same way that the circumstances described above led to an increase in output. A whole series of problems are comprised in this question.

If the producers are fully occupied and capital is fully utilized, the ever present desire for more consumption will obviously not lead to an extension of production. There is no possibility of increasing the social product. This type of situation is most closely approximated in the economic systems of densely populated and primitive societies. Furthermore, economic growth initiated by the dynamic tendencies of the producers, even if it is financed out of available reserves, is much more sensitive to economic disturbances. It presupposes that our economic system grows in harmony with the continuously shifting demand schedules. Any disturbance, regardless of the reason, which causes the incomplete utilization of existing capacities will immediately upset the equilibrium between the production of consumption goods and that of capital goods and may also lead to a cumulative restriction of

production. The process of readjustment, as it takes place in a depression, may be very long and wasteful.

The question of whether the unsatisfied needs can provide a basis for the expansion of production usually arises at the end of the cycle when idle factors of production and unemployed consumers cannot be brought together. The reason for this is that after the liquidation of depression losses the monetary conditions, particularly those for credit expansion, are present but the psychological and economic factors, because of the overcapacity, are still lacking. In such a case the opportunity for additional production with profit making possibilities will help to overcome the "dead field." If such new production emerges and it is large enough in scope the existing overcapacities will be quickly absorbed.

The effect of the creation of new industries upon the level of employment and increase in national dividend is not confined to industrial production alone. In modern industrial countries, in particular, an increasingly smaller portion of the population is engaged in industry. Thus in the United States in 1920 the number of gainfully employed, not counting those employed in agriculture and forestry, was about 31 million. Only 14 million of these were engaged in mining, manufacturing and mechanical industries, while 17 million were engaged in transportation, commerce, public, professional and personal services, and clerical occupations. Out of the 38 million gainfully employed in 1930 only 15 million were employed in mining, manufacturing and mechanical industries, while 10 million were employed in commerce and transportation alone.¹

Every increase in industrial production, and particularly the creation of new industries, is therefore of greater significance for economic growth, for the national dividend and for the increase in employment than would be indicated merely by the record of the number of people employed in the "new" industry. The production of the finished goods, let us say motor cars and refrigera-

¹ *Statistical Abstract of the United States, 1933.*

tors, must be preceded by the production of the raw materials. This stimulates employment in the other fields of economic activity. In the monetary process, likewise, the volume of money used in the manufacture of a product initiates a circulation movement of purchasing power which provides a basis for a whole series of productive activities which make possible the absorption of productive capacities and the employment of labor.

The increase of production in a whole series of branches of production may at first take place by the utilization of the existing capacity reserves. In time, however, as soon as new profits and savings make capital available (frequently, too, capital may be secured by credit expansion), an increase in production will lead to an expansion of productive capacity and to the construction of capital goods producing plants. Finally, production merely constitutes the core of a wider economic system which comprises other elements such as commerce, transportation, administration and all kinds of services. The creation of new industries rather than the extension of already existing industries brings about the creation of new commercial, transportation and administrative agencies and frequently also of new residential districts, all of which absorb large savings. The financing of all these investments, the creation of new jobs and new incomes all rest ultimately upon the additional production, which, by creating new additional wants, finds its way into ultimate consumption.

The promotion of public works by loans will, under certain special conditions, also lift the general level of employment and increase the social product. If financed with idle capital there can be no doubt that public works will increase the total of production. Furthermore a rise of prices is prevented by the existence of adequate capacity reserves. The problem is more difficult when public works are financed by loans derived from income. The effect of such public works operations will depend on whether or not such works open up new fields of production which require additional labor. If, for example, subscriptions to loans for public works result in the dismissal of workers engaged in personal serv-

ices, like gardeners and chauffeurs, and these dismissed workers are subsequently employed on the public works, the total value of the social product and the number of employed workers will obviously remain unaffected. If, on the other hand, the recipients of income restrict their consumption of commodities of all kinds (as in the case of financing loans by gentle pressure upon middle and low bracket incomes) and the hitherto unemployed workers find new jobs, the consumption of the latter will offset the loss in consumption of the former. In such a case the circular process is widened and provision is made for new labor since here, too, a redirection of consumption has been effected. The difference between this case and the former lies in the fact that the real income of producers has been reduced.

We are to consider, finally, the effects of new industries which replace existing industries, as, for example, in the replacement of cotton production by that of rayon. Such new industries both absorb and destroy capital. They replace one income yielding capital by another. By taking accumulated capital off the market they help to prevent the deflationary effects of a dwindling or stagnant investment field. While the creation of such new industries does not create new jobs it does have a temporary stimulating effect upon the volume of employment. This was also the view of Mill. For Mill also regarded the continuous accumulation of capital as dependent upon the destruction of old capital, without which the interest rate would sink too low. (He never thought of savings without investment.) Investments of the kind as here indicated are similar in consequence to expenditures for public works. The difference consists in the fact that spending for public works will burden the future with interest payments for capital expended while in the case of private investments, although the income of some old capital will be destroyed, the total income from capital remains unchanged with no additional burden on the future. On the other hand, such private investments do not mean any economic or social improvements while public expenditures bring into being new institutions which add to the national

dividend—although not in terms of money (as e.g. roads, public schools, etc.).

All the above considerations lead to the following conclusion. In our present phase of economic development nothing would more effectively accelerate the growth of production than the development of new industries whose products would bring about an active and efficient demand. Such industries arise, however, out of spontaneous technical developments and the resulting creation of demand. They cannot be decreed since they depend entirely on technological innovations. If these innovations, however, are only labor saving in effect they have a precisely opposite result, at least for a considerable period of time. The effect of such new industries arising out of spontaneous inventions depends, of course, to a considerable degree on the extent of the new production. If the scope is large enough it will be able to absorb a considerable part of the accumulated capital and labor force as well as renew the development of old industries. The effect of new industries upon the economic system will be all the more stimulating when the depression is severe, when the difficulties of finding new fields of investment are great and when there are few possibilities of resorting to foreign investment to break the deadlock.

TYPES OF ADJUSTMENT IN RELATION TO TYPES OF ECONOMIC STRUCTURE

BY ALFRED BRAUNTHAL

WHILE the economic disturbances which terminated the period of prosperity of 1923-29 were more profound, the ensuing depression more acute, and the period of decline before the bottom was reached, longer, than in past economic crises, this depression too must be considered as a phase of adjustment. If it is right, as modern business cycle theory assumes, to regard a cyclical upswing as a gradual departure from an existing economic equilibrium and the depression as a process of gradual adjustment to a new equilibrium, it must be recognized that such an adjustment process has been taking place for the last several years. It is thus an interesting task of economic theory to investigate this process with a view to formulating certain outstanding patterns of economic adjustment. The measures of adjustment could have consisted of a policy either of international cooperation or of isolated national actions. International cooperation has been realized within certain restricted fields, such as the agreements between countries with a wheat surplus or those with large stores of silver. But even in these instances there never was a unified plan of production such as would be necessary for genuine economic adjustment. International cooperation, however, has failed completely on the question most prominent in international discussion, that of currency adjustment. At the London Economic Conference of 1933 there was the chance of arriving at definite adjustments by a *pari passu* credit expansion in the most important countries instead of making currency devaluation a weapon of conflict between various groups of nations. Since international action, therefore, has failed, we must study the different types of adjustment that have been applied nationally. The following remarks are intended to indicate the most important aspects of such an inquiry.

The process of adjustment has for its aim the establishment of a new equilibrium (a) between costs and prices and (b) between the quantities of the various productive factors and the opportunities for their employment. With regard to (a): the problem of costs in a depression arises because the producers are unable at first to meet the decline in prices—the main manifestation of disequilibrium—by a corresponding reduction in costs. In other words, there exists a relative rigidity of important cost elements, such as debts, taxes, and to some extent wages. The tax problem itself merits a more extensive analysis which¹ would, however, transcend the scope of this discussion. Wages show a far greater elasticity than debts, but in principle involve the same problems. The most difficult problem is offered by debts and it is the adjustment of the debt burden which will claim our attention first.

With regard to (b): the establishment of a new equilibrium between the factors of production and opportunities for employment may involve either the restoration of employment as it existed *prior* to the depression—subject of course to considerable shifts—or a reorganization involving *new* employment possibilities. The resort to the latter may be effected by measures of domestic economic policy such as the extension of public works; or by modifying the economic relations to foreign countries whether in the form of stimulating exports or of restricting imports with consequent encouragement of domestic production of commodities hitherto imported.

The aims underlying the process of adjustment can be reached in many ways. To begin with the adjustment of debts: apart from the more or less voluntary settlements between creditors and weak debtors and bankruptcies with a consequent shift in the personnel among the producers, the classic method of adjustment is that of voluntary conversion—a process which is facilitated by the liquid character of the money and capital markets during the period of depression. But as confidence is an indispensable condition to successful debt conversion and as a prolonged period of depression tends to undermine confidence not

only in the individual debtor but in the entire credit structure, the possibility of large scale voluntary debt conversion is practically eliminated.

Barring voluntary conversion, the adjustment of debts can be effected through extra-economic measures. Either the nominal debt burden may be reduced or the paying capacity of the debtor increased by raising the price of the products he sells. Internal debts can be reduced by all forms of moratory legislation, by compulsory conversion and other relief measures undertaken on behalf of the debtor or groups of debtors, particularly farmers. Here too belong measures such as special tax exemptions for agriculture, subsidies, etc.

External indebtedness may be reduced by the debtor through a moratorium on foreign debts, or where the loan is contracted in terms of foreign currency, as is usually the rule, by a reduction in the rate of exchange of the creditor country in terms of that of the debtor country. This advantage may in some circumstances offer to heavily burdened debtor countries additional inducement to maintain the high value of the domestic currency, for instance by adhering to the gold standard at a time when the creditor country launches a policy of currency depreciation. This applied to Germany with her unusually large foreign indebtedness, at least as long as she continued to discharge her foreign obligations.

The adjustment of debts through raising the income of the debtors may also be effected in several ways. If the debtors happen to be concentrated in industries which are exposed to competition from abroad, their revenue can be increased by the imposition of higher tariff rates upon the competing products as in the agricultural protective tariffs of many west and central European countries. Where the debtors cannot be relieved by restrictive imports their revenue can be increased by inflation which, as construed in this discussion, comprises all monetary measures leading to a higher price level.

In the adjustment of production the most obvious measures under consideration are the "creation of work." While this term

has a variety of meanings, in this connection it refers to the extension of public works. This has been a favored measure for dealing with unemployment, particularly since the abundance of idle money, which is characteristic of periods of depression, and the consequent low rates of interest offer an inducement to the state to finance public works. The inducement is still greater if such a measure involves a reduction in relief rolls or unemployment insurance payments. It goes without saying that there is a genuine creation of work only when the public loan is drawn from idle funds and does not constitute a mere utilization of capital which would otherwise have been employed in other branches of production. But large funds of idle money are characteristic of periods of depression.

Where, however, economic dislocation is far reaching and the credit market has ceased to function in a normal way or where the plan of work creation through public loans has proved inadequate, the state must obviously resort either to new taxes or to the creation of credit. It is possible to conceive of definite conditions and specific tax forms under which an increase in tax rates would constitute a genuine addition to employment and not a mere shift in employment. But the present depression more than any other in the past has been accompanied by such a severe fiscal crisis and the burden on the producers of inelastic taxes is so great that the raising of funds necessary for the financing of employment through taxes is practically impossible. Accordingly there remains only the creation of credit either directly by the state or indirectly through the central bank. To the extent that these credits take the place of credits to private industry they merely prevent a further shrinking of the credit base and constitute at most "relative inflation"; where credit creation extends beyond that, there is absolute inflation.

The external measures in adjusting production refer either to the restriction of imports and the domestic production of commodities hitherto imported, or the stimulation of exports through the tapping of new foreign markets. The restriction of imports

may be effected in three ways, the simplest of which is offered by the protective policy in its manifold and in recent years highly refined forms. Since, however, protectionism in a country is limited by its own export needs, imports may be restricted by the depreciation of the domestic currency in terms of the currencies of the most important import countries provided that such reduction is not offset by corresponding inflationary raising of the domestic price level. The effect will be the greater the smaller the rise in the domestic price level—in spite of the increase in the price of imported commodities—as compared with that of the import countries. (The relative enhancement of prices is of course possible also with constant or even falling prices.) The third method of restriction of imports is deflation, which as understood here comprises all measures aimed at a reduction of prices and costs. The similarity between the effect on imports of a deflationary reduction of prices and currency depreciation is obvious; it is doubtful, however, whether deflation can be pushed as far as currency depreciation.

In the promotion of exports the same considerations apply as in restriction of imports, with this difference that the first method—protective tariff—is possible only to a limited extent. Importing countries, as a rule, offer greater opposition to export subsidies than to currency depreciation by the exporting countries.

In attempting to derive from these manifold adjustment measures definite types or patterns of adjustment it is best first to single out the measures which differ sharply from one another. This is particularly possible in the field of monetary measures where deflation, currency depreciation without compensatory inflation and inflation form three sharply delimited types of adjustment. Alongside this differentiation it is possible to distinguish between the measures aiming at the stimulation of production without a reallocation of factors of production and stimulation involving such a reallocation. On the other hand it would not be very useful to regard tariff protection and moratoria as independ-

ent types of adjustment. The former is fairly general in all countries and the latter is only a specific measure not far reaching enough to constitute an independent pattern of adjustment.

With regard to types of economic structure, to which the types of adjustment are to be related, only a few words can be said. It is possible here to follow the usual division into industrial, agrarian-industrial and raw material countries. The well known fact that the lines dividing these three types of countries are fluid need not interfere with the adoption of the scheme in a discussion of general nature such as this. What is important is the problem of the economic interdependence between the several countries and the world economy which is particularly marked in the case of countries of the agrarian-industrial type. With regard to this type, however, it is still possible to discern various subdivisions which will claim our attention.

Let us begin with deflation as a type of adjustment and relate it to a definite type of economic structure. At first sight it is fairly difficult to perceive which types of economic structure will choose this type of adjustment. Deflation undoubtedly offers a means of restricting imports and increasing exports, but only when it harmonizes to some extent with fluctuations in the value of the currencies of those countries from which imports are to be restricted and to which exports are to be stimulated. And here deflation meets with serious obstacles of a psychological and economic nature.

The psychological obstacles which militate against the adoption of a deflationary policy are those involved in the reduction of wages and salaries. They are considerable even when the wage reduction is nominal, that is, not extending beyond the reduction in the cost of living. Where, however, the reduction is real the resistance is immeasurably greater than that offered to a similar reduction in real wages induced by the lag in wages in a period of rising prices. Similar considerations apply to prices of more or less monopolistic commodities. The compulsory reduction in their

price meets with greater opposition than a lag of these prices in a period of rising general price level.

The economic difficulties involved in deflation flow primarily from the increasing burden of indebtedness. The effects of deflation are more acute when the period of deflation follows upon a period of automatic price decline induced by the crisis. Deflation is thus in effect the very opposite of adjustment of debts. Of course it is possible to offset this difficulty by combining deflationary measures with debt relief in the form of moratoria or compulsory conversion, as in the Bruening legislation in Germany. But lest it ruin the entire credit structure direct state interference with the terms of private debt contracts must of necessity be more limited than a policy of deflation if the latter is to be in any way effective. Similar considerations apply, if not to the same extent, to the restrictive effects of the tax burden in a period of depression.

In addition there is the paralyzing effect which issues from every wave of price decline, the speculative withholding of purchases in anticipation of still lower prices, the general pessimism generated by economic paralysis and by the political difficulties usually following in the train of a consistent deflationary policy.

With what conditions, then, it may now be asked, is the resort to deflation compatible? The type of economic structure most suitable to the deflation type of adjustment is that of the agrarian-industrial country in which industry and agriculture are fairly well balanced and in which agriculture is just sufficient to cover the domestic food requirements (except for certain special products such as wines which may involve imports or exports). The most important countries coming under this heading are France and Italy. Countries with this type of economic structure were relatively little affected by the crisis. The economic activities of their agricultural populations were not productive of violent fluctuations, but on the contrary provided a solid consumption base for domestic industry, provided of course that the import of low priced agricultural products was barred. Moreover the proportion of export trade to the total national economy was not unduly

great. A none too severe deflationary policy was thus sufficient to bring about the restoration of a new equilibrium. Only in recent times under the pressure of a continuous currency depreciation in the most important countries was it necessary to intensify the process of deflation.

Another factor which to some extent favors the resort to deflation is the availability of unusually large stocks of gold stored in the central banks or hoards of gold bank notes or bank deposits. This, too, is true of France, Switzerland, Holland and Belgium (also of the United States). Of itself alone inflation would reduce the value of gold. But the gold bloc countries manifestly fear that a complete abandonment of gold by the last defenders of the gold standard would deprive the yellow metal of its monetary significance and thus its character as international store of value. Should these fears be realized—which is most unlikely—the value of gold would fall sharply. This would obviously affect adversely the gold hoards, while the hoarded bank notes and bank deposits—independently of the problem of demonetization of gold—would be affected by price increases made necessary by inflation (according to our definition of inflation) and possible by a fall in the rate of exchange.

Another group of countries which can escape the tide of deflation only with great difficulty are those in which postwar inflation assumed such enormous proportions and wrought such havoc with economic relations that the psychological resistance to a reduction in the rate of exchange as well as to any marked inflation is very strong. This is particularly true of Germany, and to lesser extent of France, Belgium, the Danubian countries and Italy. The psychological factor is all the more important in Germany, since there does not exist a reserve of gold or foreign exchange for stabilization measures in an emergency. The case of Germany is particularly fatal; the resort to deflation seems to be incompatible with a highly industrial country whose economic well being depends to such a pronounced degree upon foreign trade. And this impasse manifests itself not only in the extent of the economic

crisis but also in the political fate of the country. The unparalleled psychological and political strains which produced the resort to this atypical behavior undoubtedly played a most important role in the political upheaval of 1933.

More recently Germany attempted to escape the economic consequences of her atypical policy by the device of a concealed reduction in her rate of exchange reaching at least a part of her export trade. The highly complex forms of this system (Sperrmark) need not detain us; it is sufficient to note that either policy is relatively effective, as it reaches those marginal sections of export trade which are most exposed to international competition. This form of reducing the rate of exchange—possible of course only in countries which are in the fortunate position of debtors, whose creditors of necessity are forced to accept their claims in depreciated currency in preference to complete default—offers a further advantage in that it does not increase the price of imported raw materials and thus does not weaken the international competitive capacity of the domestic industry.

The last group of countries which cannot escape the resort to deflation are those which remain in political or monetary dependence upon countries which have already entered the deflationary path. These are the colonies of the gold bloc countries, that is, the largest part of Africa and southeast Asia (including the archipelago). Here also deflation is atypical; these countries are mainly producers of raw material for whom the proper monetary policy would be a reduction in the rate of exchange uncompensated by internal inflation. The hardships inflicted upon these countries by the deflationary policy are overcome only by the financial support of their respective mother countries. The situation of the Asiatic countries is further relieved by the unusually low prices of industrial commodities imported from Japan. (It is particularly interesting to note in this connection the attitude of Java, which yielded only with the greatest reluctance to the pressure of Holland in restricting imports from Japan.)

The second pattern of adjustment involves the reduction in the

rate of exchange without compensatory inflationary measures. This policy, as already mentioned above, implies that the increase in prices in terms of gold currencies does not extend beyond the point conditioned by the increase in price of raw materials which they have to import from gold currency countries.

This path is followed by countries in which export trade, particularly the export of industrial commodities, forms an important factor in the total economy. The reduction in the rate of exchange without compensatory inflation provides to these countries an unusually sharp competitive weapon not only in the struggle against gold currency countries—which as mentioned before are restricted in their action by the limits of a deflationary policy—but to a somewhat lesser extent also against the industry of the inflationary countries. This policy, moreover, possesses the additional advantage of offering more attractive prices and thus securing new customers among those raw material producing countries which had reduced their rate of exchange prior to and independently of the industrial exporting countries. The most important instances are England and Japan (where the export of raw material—silk—also plays an important role) and Czechoslovakia.

It should be noted in this connection that England's departure from the gold standard—and this applies to the United States—was originally somewhat of a surprise and was considered atypical; it was assumed that a creditor country whose large claims upon foreign debtors are almost exclusively stated in terms of its own currency should be interested above all in maintaining high rates of exchange. This view, however, is not always correct. In adopting a policy of lowering the exchange rate without internal inflation, as in the case of England, the creditor country does not suffer any depreciation of its claims since the domestic price level has risen only slightly or not at all; the easing of the burden of the debtor in this case was thus accompanied by no loss or only a slight loss to the creditor.

There is furthermore another element in this type of monetary

policy which works to the advantage rather than to the disadvantage of the creditor: the relieving of the debtor is a most important means of maintaining his solvency. This applies to debtor countries which continue to adhere to the gold standard as well as to those which have departed from gold currency but are obliged to meet their foreign payments in gold currency. It is one thing to reduce the creditor's rate of exchange when the debtor country enjoys economic prosperity and quite another to reduce such a rate in times of economic stress; in the latter case it is very doubtful whether by maintaining its rate the creditor country could collect from the debtor country more (in terms of the purchasing power of this money in the creditor country) than it can collect after reducing its rate of exchange without compensatory inflation, or even as much as it can collect; in the last case, prices do rise somewhat in the creditor country but the amount paid by the debtor country may be greater than that paid if the debtors were forced to pay at the old rate of exchange.

In the case of England it is further to be noted that the lowering of the rate of exchange possessed an additional advantage inasmuch as it corrected the maladjustment created by the stabilization of the pound following the postwar inflationary period. England had stabilized the pound at too high a rate and was obliged to pay for this step by a continuous tendency toward a passive trade balance. The lowering of the rate of exchange, therefore, not only increased (relatively) the export capacity of England, but also reduced to a more normal level the import of industrial products, thereby stimulating the internal demand for domestic products.

With regard to Czechoslovakia it should be noted that the lowering of the rate of exchange met with resistance similar to that which appeared in Germany, namely the memory of the postwar inflation. Inflation in Czechoslovakia, however, was not so ruinous as in Germany; nor was there a possibility of resorting to the concealed form of depreciation that Germany practices through the device of the blocked mark. Furthermore Czechoslovakia

found herself in a particularly difficult position since her industries, which had been adjusted to the market requirements of the Austro-Hungarian Empire, lost the major part of her former domestic market with the splitting up of the Empire into succession states each bent on developing its own industry. This helps to explain why Czechoslovakia succeeded finally in overcoming the psychological resistance to the adoption of a monetary policy suited to her needs—even if it came rather late and in the form of only a moderate single devaluation followed by immediate stabilization at the new level.

The second type of economic structure for which the lowering of the rate of exchange without compensatory inflation is the typical monetary policy comprises the agrarian-industrial countries with a large export of agricultural products. Denmark and Sweden are cases in point. The position of these countries was made particularly difficult because their agricultural economy tended to specialize in the production of the more refined finished products and thus to rely primarily upon the markets of higher industrialized countries (above all Germany and England). Unfortunately for Denmark and Sweden, however, the market for this type of agricultural products was considerably restricted by the tendency of English and German agriculture to widen the domestic production of such products. These developments thus impelled Denmark and Sweden to resort to a lowering of the rate of exchange without compensatory inflation in order to maintain their export trade or at least to prevent its further shrinkage—particularly from the moment when England herself embarked upon such a monetary policy.

Finally, the third type of economic structure which seems to call for the monetary policy of lowering the rate of exchange without compensatory inflation includes countries which specialize in the production of raw materials, particularly those which produce raw materials or agricultural products for export. The drastic collapse of prices of such commodities characterized the present depression more than any of the past crises. The decline of prices

had the effect of a spontaneous deflationary move, which could be overcome neither by a further voluntary deflationary policy (the special case of colonial countries dependent upon their gold currency mother countries has been mentioned above) nor by an inflationary policy; such a policy would have merely accentuated the difficulties in maintaining the foreign markets. There remained thus only one solution (apart from the important step of reallocating production, to be discussed later), namely the monetary policy of lowering the rate of exchange without compensatory inflation. This policy enabled those countries to reduce the price of their export goods in terms of the currency of the importing countries, thus stimulating their capacity to absorb more commodities without further depressing their domestic price. To the extent, however, that the importing countries themselves reduced their rate of exchange, the similar reduction of the rate of the raw material exporting countries prevented a further reduction in the import capacity which the importing countries would have suffered as a consequence of their monetary policy.

The last type of monetary adjustment is inflation. This applies to countries with a highly developed agrarian and industrial economy in which export trade does not occupy an important position in relation to the total national economy and in which domestic agriculture is amply sufficient to fill the domestic requirements for food. The classic instance is of course the United States. It differs from France and Italy not only by its greater degree of industrialization which renders this country more sensitive to cyclical fluctuations, but also by the dependence of some of its agricultural products, particularly cotton, upon foreign markets. The significant difference between the economy of the United States on the one hand, and those of France and Italy on the other, is that while the latter group could arrest the price decline of agricultural products, the former could not. The export prices of agricultural commodities are determined in the world market, and even the storing of supplies beyond the needs of domestic consumption could not provide permanent relief, as was proved

by the farm board scheme under Hoover. Agriculture in the United States could not thus serve as a broad consumption base for the support of the market for industrial products, as was the case in France and Italy, but on the contrary aggravated the crisis already acute because of the industrial character of the country.

Normally agriculture and industry are debtors. They were such to an even greater degree toward the end of the boom, preceded as it was by a period of most active investment induced by rationalization in industry and agriculture. In this movement the United States occupied the foremost place. A policy of debt adjustment was absolutely inescapable. The vast proportions that indebtedness assumed in the United States and the particular sensitivity of the credit system in a highly developed country rendered moratory measures or compulsory debt conversions a dangerous policy and favored the adoption of inflationary measures aimed at lifting the general price level, and improving the paying capacity of the debtor by increasing his revenue. If inflation is connected with the reduction in the rate of exchange, the gold clause in the debt agreements has to be annulled. By the same reasoning, inflation usually provides a stimulus to production.

Inflation was thus the proper policy of adjustment. The combination of inflation with successive lowerings in the rate of exchange was not as essential as it appeared at first sight. It was dictated largely by the needs of export trade, which though not of overwhelming importance could not be entirely overlooked. It would have been quite possible to resort to inflation without a reduction in the rate of exchange, as was proved by the inflationary experiments during and following the World War. Such a policy, however, would have hampered the export trade and stimulated imports in spite of the rather high degree of tariff protection in the United States. Hence the combination of inflation with a reduction in the rate of exchange; this policy, moreover, contributed at least in the first months of its application to a speculative rise in prices which in itself brought about a certain measure of inflation in the form of a larger volume of credit corresponding

to the higher price level. We cannot discuss here the counter-effects and frictions which have partly offset the results of this policy but which have not changed essentially the general pattern of this type as described above.

It was stated above that alongside the cost-price adjustment the depression period usually witnesses another adjustment, namely the adjustment of the productive factors to the volume of employment either in the form of a gradual restoration of employment of all productive factors to the predepression balance or the redistribution of productive factors among new branches of production.

The first pattern of adjustment (the restoration of employment to the predepression balance) is valid for the type of economic structure characteristic of those agrarian-industrial countries in which the export trade is of little significance, as for instance Italy and the United States. In these countries there are not many possibilities for shifting production—if the shift involved in the so-called work creation schemes is omitted. Work creation measures, however, play a large part in these countries. In the United States such measures perform an important function as a part of the general inflationary policy (the expansion of public credit with the corresponding inflationary creation of additional purchasing power); in Italy the expansion of public works is important primarily because the depression not only prevented the normal emigration of large numbers of workers but even caused repatriation. There is thus a genuine surplus of labor which is incapable of being absorbed by a stagnant industry and can be restored to employment only with the aid of public works. While the redistribution of production in countries with a relatively low export in agricultural products is of only limited scope, the situation is different in agrarian-industrial countries with a large export trade (Denmark, Sweden), which, faced with a drastic decline in quantity and value of their exports, are forced to restrict the importation of industrial commodities and shift their pro-

ductive resources to the production of those commodities at home. Thus Denmark proceeded to develop her shoe and textile industries while in Sweden the index of industrial production in the first months of 1934 exceeded that of the predepression period.

Apart from these instances, the pattern of adjustment involving the reallocation of production is limited essentially to two opposite types of economic structure: the highly industrialized countries and the raw material producing countries. The first group includes England and Germany. It is true that even before the depression agriculture played a certain part in the economic set-up of those countries, but not as important a role as in the agrarian-industrial countries. There was therefore more room in those countries for agricultural expansion, utilized in the years of depression, primarily in the field of the more refined agricultural products. In Germany agricultural expansion was further stimulated by the tendency toward internal colonization. It is necessary, however, to have a clear conception of the limits of such agricultural expansion. It is possible to assume that the shift of certain portions of productive factors from industry to agriculture will result in the utilization of a larger amount of capital than was previously employed in industry. But the absorption of labor even when stimulated by a forceful drive toward domestic colonization will not assume large dimensions. There is thus no justification for identifying such a process with a movement of "reagrization."

Of greater importance is the process of redistribution of productive factors in countries producing raw materials. This manifests itself in three directions which are more or less combined in most of such countries. The first tendency is toward industrialization. This process, although secular in character, received a powerful cyclical stimulus from the depression and the consequent shrinkage in the purchasing power occasioned by the disparity between the prices of industrial products which these countries buy and those of the raw materials which they sell. To be sure, the process of industrialization is somewhat retarded by the

deteriorated international credit position of the raw material countries, which renders difficult the purchase on credit of capital goods necessary to a rapid industrialization. But as Russia and Japan proved, the lack of foreign credit is no absolute bar to industrialization; moreover with a drastic reduction in the standard of living of the masses of people even less industrialized countries offer considerable possibilities for capital formation. In terms of physical goods the adjustment expresses itself in a still greater reduction in the import of finished industrial production thereby releasing purchasing power for the importation of capital goods. In the current depression the process of industrialization is to be observed in many raw material producing countries.

The second tendency in the reallocation of productive resources in countries of this type is in the direction of diversified production of raw materials; they cease to be one-crop countries. This shift is at first sight puzzling, since one is inclined to assume that it does not change the general position of the raw material countries. If country A, which has hitherto produced and exported the commodity a, restricts the production of that commodity in favor of commodities b and c, while countries B and C, which have produced and exported b and c respectively, restrict their production and shift to a and c, or a and b, respectively, assuming that the total quantities of the commodities a, b, c remain the same, the position of the three kinds of raw material in the international market remains unaltered. Yet such a shift offers certain advantages to each of the respective countries, namely a lessening in the market risk, since the downward movement in the prices has not proceeded for all kinds of raw materials in unison and is checked by recovery movements of different degrees of duration and distributed over different periods of time. The transition from monoculture to polyculture thus offers at least the advantage of the spreading and equalization of risk. This explains the fact that the decline in the production of certain types of raw materials in countries which used to be their chief source of supply was almost

entirely offset by a corresponding increase in the production of the same raw materials in other countries.

Finally the third tendency in the reallocation of productive resources in response to the depression takes the form of agricultural diversification with a view of self-sufficiency in the supply of necessities. Since the outside world is no longer ready to accept their raw materials in sufficient quantities and at remunerative prices they shift to the production of necessities of life which they had hitherto purchased abroad. Why should not India undertake the production of sugar at a time when her export of cotton declines and her capacity to purchase foreign sugar has correspondingly dwindled? Any why should not Egypt, faced with a similar decline in her export of cotton, extend her cultivation of wheat and thus free herself from dependence upon foreign supply? In fact while the production of cotton in British India has declined from 10,491,000 double centners in 1928-29 to 7,374,000 in 1931-32, the output of sugar increased from approximately 2,735,000 tons in 1928-29 to 4,651,000 in 1932-33.

The general impression conveyed by these developments is that the countries which had specialized in the production of raw materials and which were hardest hit by the depression, adapted themselves without much difficulty to the new conditions of production. Their position today is by no means so desperate as the mere study of the prices and output of their chief products would indicate.

This sketchy survey of the most important methods of adjustment may conclude with a few statements concerning the general character of the process of adjustment to the general depression. The following general characteristics of the adjustment process appear to be most representative:

1. The disequilibrating factors in the current depression were so powerful that the automatic process of adjustment, although it asserted itself in all countries, was not so rapid or so thoroughgoing as to effect a sufficient readjustment. Consequently, as com-

pared with the predepression period, all countries witnessed a greater reliance upon state intervention in the economic mechanism, involving an increase in the power of the state, particularly of its executive branch. These changes produced corresponding changes in economic and political ideologies, as evidenced by the spread of the theory of planned economy and of the role of the state as a conscious guide to economic activity.

2. The extent of the changes in the relation of state to economic activity differs from country to country, and depends less on the political tendencies than upon the structural type of the respective countries. A few illustrations will bear out this point: Fascist Italy, with its interventionist ideology bordering well nigh on the concept of planned economy (Mussolini's reference to Roosevelt as his disciple is still fresh in memory) is definitely conservative in its economic and monetary policies. National Socialist Germany, the anti-capitalist orientation of the National Socialist movement to the contrary notwithstanding, has so far not dared to authorize a departure from the gold standard and in general has indulged in less interference with the credit mechanism than the preceding governments. Nor is it necessary to elaborate on the extent to which the Roosevelt economic policies, and to a somewhat lesser extent England's move in the direction of a planned agrarian economy, really constitute a departure from the political and economic ideologies which have hitherto dominated the two countries.

3. The most important economic result of the process of adjustment, however, is the marked disintegration of the international division of labor, whether in the form of a certain measure of reorganization (within the limits mentioned above) of the highly industrialized countries and industrialization of the agricultural and raw material countries, or in the form of agricultural diversification with a view to economic self-sufficiency.

A few words should be said in this connection about the commercial and monetary policies which furthered this process of disintegration. The various measures discussed above have been

treated here only as specific elements of the process of adjustment. Only in this sense have they been considered as conforming to type or as atypical. Their usefulness in terms of a more general criterion was not a part of the discussion. It is quite conceivable that a certain measure, while desirable and justifiable from the viewpoint of a single country, may, from the viewpoint of world economy, only aggravate and prolong the depression; in its final effect it may thus retard rather than promote the process of adjustment.

And actually the process of disintegration is viewed by economic world opinion and by professional economists with grave misgivings. In all countries this process is promoted by a variety of commercial and monetary measures, which are almost everywhere justified by the statesman on the ground of necessity and frequently as a reaction to a similar action on the part of other states. Almost everywhere the professional press voices the opinion that the all-inclusive system of commercial and monetary protectionism in the long run harms the interests of all countries and that the sacrifice of the benefits flowing from international division of labor will inevitably further reduce the world social dividend.

This view may be justified in many particulars. Many of the excesses of protectionism were undoubtedly avoidable and their omission would have in the end brought more good than harm to countries which have such measures on their conscience. But from a broader point of view it may be stated that the process of disintegration as a whole, if not in all its details, appears an inevitable development. It may even be economically justified on the ground that the one-sided development of the highly industrialized and the monocultural raw material producing countries rendered the two groups of countries too sensitive to cyclical fluctuations. The transition to a more balanced internal economy is thus a necessary step toward greater immunity against cyclical disturbances, and although this transition was effected rather precipitately and accompanied by considerable friction and losses,

the price paid in terms of a reduced social dividend does not appear to be too high, should such action really bring about a lessened sensitivity to cyclical shocks.

The full development of international division of labor would undoubtedly be the proper economic policy under conditions of a well integrated world planned economy—a concept which in the face of present day political, cultural and psychological obstacles appears but a remote possibility. So long, however, as economic development proceeds in fitful cycles marked by wide swings like that of 1922-29, the disintegration of international division of labor appears inescapable, even if in alternation to cyclical swings of economic reintegration. It remains the task of economists to exercise care that the process of disintegration at the low point of the cycle be confined to a minimum consistent with the reasonable interests of the various national economies and at the same time that an attitude be created which is favorable to international action, to further reintegration and *pari passu* measures of adjustment.

MAX WEBER'S SOCIOLOGY¹

BY ALBERT SALOMON

I

IN 1901 a pupil of Max Weber demonstrated the fact that the majority of industrial establishments in Baden were under the direction of Protestants. The Catholics, on the other hand, were but poorly represented among the industrial leaders in comparison with their percentage of the population.² This dissertation provided the external impetus to Max Weber's work in the sociology of religion, which revolves mainly around the problem of the relations between capitalism and evangelical Christianity.

The force of the ties between politics and religion had already become known to Max Weber from the cultural policy of the Prussian government. At the eighth Evangelical-social Congress he had spoken on the "purely external and purely formal bureaucratic religious spirit" which had been fostered in Prussia ever since Puttkamer. Not only contemporary political questions, however, but his universal historical knowledge impressed upon Weber the formative and determining influences of religion upon the practical conduct of life. Was there a direct line between the drab and soberly rational everyday existence of capitalism and the forces of the Christian spirit? In his early investigations of agricultural conditions Max Weber had already indicated the significance of the idea of "freedom" as one of the most powerful of the motivating factors of human activity and he strongly emphasized the determining force of ideological factors together with economic, social and political factors. The exposition of this principle provides one of the most fruitful and significant modifica-

¹ This is the second of a series of three articles on Max Weber by Albert Salomon. The first study, "Max Weber's Methodology," appeared in *Social Research*, vol. i, no. 2.

² Offenbacher, Martin, *Konfession und soziale Schichtung* (Tübingen 1901).

tions, but at the same time also a continuation, of the work of Marx.

Unscrupulous striving for gain, greed for money, property and economic goods existed at all times. Every historical epoch knew the irrational capitalism of adventurers, traders and war profiteers. How was it, however, that the acquisition of money, in itself and for itself, came to be regarded as a moral duty? Such a conception would have appeared absurd to the aristocratic and feudal classes and degrading to any Greek or Roman freeman. How did the entrepreneur come to believe that his desire for profits was a moral obligation? In this connection Luther's hostility to Catholic asceticism is of the greatest significance for all confessions of the Protestant churches. Luther's conception of "calling" (*Beruf*) attached a specific dignity to all secular and worldly activity and gave to all daily activity a moral and religiously divine sanctity. The monastery was demolished but the whole world now became a monastery. Nevertheless there is yet no connection between genuine Lutheranism and the capitalist spirit. The spirit of capitalism is to be understood only as a product of Calvin's gloomy doctrine of predestination and its resulting rules of life and conduct. In Calvin's *deus absconditus* only the terrible majesty of God is preserved without the characteristics of goodness, love and creation. Through His Majesty all human souls, even before birth, are predestined without question either to heaven or to hell. This doctrine of predestination became the power which regulated the general everyday life of Calvinists. For there is only one single means whereby to assure one's self of the state of grace and that is through adherence to one's calling. Unceasing devotion to work, the most minute and conscientious fulfilling of duty, restlessly successful activity for the glory of God, only these can lead to the certainty of belonging to the elect and the saved. Permeating Cromwell's letters is the motif that suffering obedience is more carnal and sinful than worldly activity. God demands from us activity, rational worldly constructions and no moods or feelings. To the Puritan, accumulation of

money served as a sign of grace. He is not to spend it for mere pleasure but rather for the glory of God, which means for new business enterprises. Like the medieval monasteries the Puritan entrepreneurs could not escape from the inner logic of their position. The rational disciplining of life, the hostility to worldly and sensuous culture, the deepest mistrust of all those human ties which rest upon irrational feelings, all these served to force the occupational calling into the center of their life activity and made them look upon it as service of God. Since this logic demanded, however, that all profits in turn be used for more work, the accumulation of capital, therefore, became almost an end in itself. Some time or other the religious roots of this spirit would be torn away but the accumulation of money, the calling, produced an autonomous and self-generating kind of activity. "The Puritan wanted to be an occupational being (*Berufsmensch*), we must be so." "The care for worldly goods was to be only like a thin coat on the shoulders of the pious and could be cast aside at any time. But this coat was destined to become a hard steel casing."¹ This represents the connection between the doctrine of predestination and worldly asceticism. This spirit together with its related doctrine of economic ethics became a condition for the development of that rational economic power, which dominates modern life with increasing oppressiveness.

In an epoch which aimed to deduce all intellectual and spiritual relationships from material interests this discovery of Max Weber's took on the greatest and most revolutionary significance. It gave Weber the impetus to further researches into the economic ethics of the great Asiatic world religions and Judaism. If Western Puritanism had provided a basis for the possibility of a rational industrial and economic organization, then the question arose as to whether or not the religious structures in Asia constituted a force which prevented the emergence of such economic forms of life. And in fact it appeared that there were all kinds

¹ Weber, Max, *Gesammelte Aufsätze zur Religionssoziologie*, 2nd. ed., vol. i (Tübingen 1922) p. 203.

of ritualistic and religious restrictions which, despite highly significant commercial and finance-capitalistic forces, did not make possible the development of a continuously rational, industrial production system. The very religious tendencies of the Jews, which Weber brought forth in opposition to Sombart's interpretation of Jewish participation in modern capitalism, are in themselves proof of this thesis. The sanctified religious life of the Jews was never realized through or in their occupation but always outside their daily work, in prayer, in the study of the sacred literature and in the ritual life—religious attitudes far removed from a worldly asceticism.

Whereas in these researches Max Weber revealed the influence of religious attitudes upon the economic activity of everyday life, in his continuation of these studies, especially in the section of his *Wirtschaft und Gesellschaft* dealing with sociology of religion, he showed the development of religious ideas within definite social groups and the influence of social conditions upon certain religious ideas and institutions. Max Weber thus described the relationship between Confucianism and the forms of life and consciousness of a literary bureaucracy and the social ethics of the older Islam as an expression of a warlike aristocracy. He discovered the significance of aristocratic and proletarian intellectual classes for the content of certain religions of salvation, and in this connection he disproved Nietzsche's theory that the sources of these religions are to be found in the resentment of the pariahs. The intellectual classes of the nobility, who were the carriers of Buddhism, did not share in such resentment. Weber showed the peculiar significance of the Hebrew prophets for the continued existence of the Jews as a religious group, even after their political state had been destroyed, and he tied up the pariah existence of the Jews after the Exile with their religious consciousness. Despite the close connection of the spheres of religion with those of social life, the religious spontaneity of the former cannot be ultimately deduced from social relations. The content and character of religious ideas can be explained only from the internal laws

of the religious sphere and religious needs. "Interests (material and ideal) and not ideas govern the immediate acts of man. But the 'world views' created by ideas have often served as switchmen to set the limits within which the dynamics of interests move activity."¹ The incomparable grandeur of the "economic ethics of the world religions," encompassing Protestantism and Judaism, Hinduism and Buddhism, Confucianism and Taoism, rests not only upon the universal conception and the keen and illuminating power of Weber's ideas, but particularly upon the compactness and intensity of the sections on Puritanism and the ancient Hebrew prophets. One must go very far back in the literature of German cultural and intellectual history to find anything comparable. Dilthey's justly famous *Weltanschauung und Analyse des Menschen seit Renaissance und Reformation* is, in comparison with Weber's work, lacking in clarity of formulation and pale in its description. Only the work of Ranke is as realistic and as intense as these works of Weber. Ranke's Christian humanism, however, was able to harmonize reality with the strained tension in his faith. All history ultimately rests peacefully in the hand of God, every epoch stands in immediate relation to God. The opposite view is found in Max Weber. His investigations showed him that not every epoch stood in this immediate relation to God. He knew that the force of the Christian *charisma*, which, through the religious heroism of the English sectarians, had revolutionized the entire life of the West, had disappeared. He knew that it was still manifest only in very limited circles and in individual souls. There was increasingly less room for religious charisma in the rationally standardized and rigid form of modern culture, in a time when the advance of rational sciences removed the magic spell from more and more aspects of organic and social life. The power of expression in his treatment of Puritan leaders and the prophets, such as Bunyan and Cromwell, Fox and Milton, Isaiah and Jeremiah, bears witness to the influence upon Max Weber of these heroes and agents of the divine *pneuma* with the greatness

¹ *Ibid.*, p. 252.

of their solitude and their calling. They were heroes in the literal sense of people whose lives were completely imbued with their calling.

In times of increasing rationalism and as a result of a growing lack of understanding for the greatness of this type of humanity there remained only the task to preserve at least the knowledge of this transforming power of religious charisma. The tension between the rational everyday life and the life of such religious heroes was not to be neglected but was rather to be sustained. Just because Weber knew what real religious charisma meant he insisted on the fact that his own age was characterized by the reign of everyday life and he looked with disgust at the need of contemporary intellectuals to mimic religious feeling. "All this renders conditions unfavorable for the emergence of serious communal religious feeling carried by intellectuals. The need of literary and distinguished academic circles or coffee-house intellectuals for including 'religious' emotions among the collection of their sources of sensation and objects of discussion . . . might appear as a sign of widespread 'religious interest' but it does not alter the fact that no new religion has ever emerged from such needs of intellectuals and their chatter and that fashion will also finally eradicate . . . this subject of conversation and journalism."¹ No one fought more passionately than did Max Weber for rational knowledge as opposed to all those kinds of sentimental, moralistic and intellectualistic knowledge which served merely to secure peace of mind and were provisional in character. The best road to genuine knowledge was by way of radical doubt. Weber was deeply conscious, however, that there are problems which are beyond immediate scientific approach. Although human reason was able to penetrate deeply into the knowledge of life, there was still an impenetrable mystery which surrounded it all.² It was, however, a commandment of human existence to preserve this mystery. He knew that man's profoundest struggles,

¹ *Wirtschaft und Gesellschaft*, p. 296.

² Weber, Marianne, *Max Weber* (Tübingen 1926) p. 340.

decisions and evaluations lie beyond the realm of rational knowledge. They are the product of the totality of his existence. Just as Goethe maintained a middle position between the forward pressure of knowledge and the calm reverence of the unsearchable, so Max Weber also knew the bounds between the world of knowledge and that of the unsearchable mystery of life. But unlike Goethe there was no balanced harmony between the two in Weber. This radical tension between the two, which is evident in the thought of Max Weber, clearly reveals the intellectual and spiritual development of the nineteenth century. For Goethe it was still possible to harmonize knowledge and faith within natural religion and pantheism. Weber could only recognize in knowledge and faith (or better perhaps, instead of faith, knowledge of the final superrational or irrational order) the extreme poles of modern human existence. To endure this tension and not break under it was the task which he set for the simple and sober heroism of modern man. The fulfilment of this demand under the conditions of modern life was possible only through unconditional service to a cause, to an impersonal ideal.

II

The foundation of the empirical sciences of reality upon a theory of knowledge and the religio-sociological discovery of the significance of Puritanism for the origins of the capitalistic spirit provided the bases for the conception of Weber's most important sociological work. Another preparatory study, however, must be mentioned in this connection. The *Agrarverhältnisse im Altertum*¹ is an important part of Max Weber's work and it is largely taken over in his *Wirtschaft und Gesellschaft*.² This study of agrarian relations is really a sociological investigation of the whole ancient social world and not only of agriculture. It considers what types of capitalism were developed in the ancient world and what

¹ Contained in his *Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte* (Tübingen 1924).

² Cf. especially the chapter, "Die Stadt."

hindrances there were to the emergence of a modern, rational, industrial capitalism. Through his knowledge of universal historical materials and through the keenness of his construction of ideal types, Weber developed out of the sociological ideally-typical concepts the various forms of sociologically relevant types of cities: the military city, the aristocratic city, the guild city, the patrician city, the plebeian city, etc., and from the ideal type, feudalism, he developed various types of feudal aristocratic rule. He always adopted the viewpoint of attempting to explain through these instruments of knowledge the individual and historically different types of social structure and above all to bring out clearly the elements preventing or favoring the development of a rational industrial capitalism. This method also contributed a great deal toward the explanation of the decline of the ancient world. The very absence of a rational industrial capitalism and the supremacy of a commercial capitalism oriented purely on political chance, together with the increasing pacification of the world and the growing importance of a state military and bureaucracy with their resulting financial needs, must have brought about the most critical results: namely the impossibility of finding a permanent source for the fiscal needs under the relatively underdeveloped rationality of the economic system. The state apparatus had become too extensive and costly to be supported by the social and economic forces of the Empire. Together with a series of quite different tendencies these were the causes which operated toward a decisive political and economic transformation of the Empire.

Out of these three great phases of Weber's work, the methodological studies, the sociology of religion, and the sociology of ancient society, grew his last great work, *Wirtschaft und Gesellschaft*. This grandiose work of empirical sociology has remained a torso, not only externally because of the death of the author, but fragmentary and unfinishable in its very nature, like the process of historical life itself. For every form, and in a scientific sense this means every attempt at systematization, cannot do without dog-

matic or metaphysical or philosophical-historical presuppositions. But these Weber, as we have seen from his theoretical studies, rejected. For value judgments create the points of reference for the construction of sociological ideal types, but not for the combination of these into one comprehensive system. Every attack at Weber's lack of system, therefore, is meaningless, since Weber, by his fundamental theory of knowledge, rejected such a desire and he repeatedly gave utterance to this view *expressis verbis*. In order to undermine this absence of system, therefore, it would be necessary to attack the logical foundations of his sociology, and not his sociology as such.

Another motive for the fragmentary form of this sociology is derived from the content which Weber gave to his sociology of understanding (*verstehende Soziologie*). He operates entirely without the concept of society. "Sociology is defined as a science which aims to understand clearly social behavior and thus give a causal explanation of its course and results."¹ Only human behavior is open to interpretation, and it matters not if this behavior is oriented around the attitudes of other human beings, social relations, or individually recognized commands and norms. Natural events can only be laid down as facts but human behavior is capable of meaningful explanation. Only human behavior is determined by motives. These may be rational, purposeful, valuational, or emotional, and therefore from the "subjectively intended" meaning, intelligible. Social behavior, therefore, is human behavior related to the attitudes of other individuals. It may be unique or stereotyped, become integrated into social attitudes or remain amorphous, become institutionalized and assume a traditionalist character or be organized into social forces. Sociology is interested in all those forms of the endless possibilities of human activities and relationships which reveal typical recurrences and present general empirically grounded developments. Sociological laws are possible only in the sense that they are conceptual formulations of such typical recurrences of human ac-

¹ *Wirtschaft und Gesellschaft*, p. 1.

tivity in the form of ideal types. Of decisive influence for this conception of sociology is the fact that it is man which occupies the central position in Weber's work. Man is the bearer of all meaning and it is man's dignity to realize this meaning. There is always the recurrent note that man can give meaning to his life only by his activity. For this reason there are no institutions, forces or social forms which are not to be realized in human activity whether it be of purposes, values or feelings. Thus Weber destroys in his sociology all the collectivistic concepts with which history and political science had operated and which always contained some latent dogmatic value judgments and presuppositions. Weber's destruction of conceptual realism in his ideal types parallels his destruction of collectivistic concepts in favor of sociological categories of man-to-man relations. Following from this all values, norms and moral commands exist, for this sociology, exclusively as maxims, ideas of value and ideas of norms, as chance which guides the activity of man. The category of chance plays a decisive role in Weber's sociology of understanding. It expresses the idea that with the knowledge of given conditions, that is knowledge of the typical attitudes of definite human groups, only one particular course of action and not another is necessary for the attainment of the goal. Such an insight provides a certain assurance of success of individual activity in the field of the objectively possible. Such a category, therefore, is formal and technical in character. In a certain sense it serves the variegated technique of life. Since life runs its course in various spheres, since economics and politics, religion and art, science and technology each has its own orders which, in concrete historical situations, are swallowed up in a web of manifold motivations, there is, therefore, an endless number of possible sociological categories and concepts. This is another reason for the fragmentary character of Max Weber's sociology.

Max Weber always protested that his sociological concepts and their casuistry did not represent an attempt to divide up reality into pigeon holes, as is so often the case in the works of formal sociology. It is but an idle task to attempt to comprehend the

endless stream of reality in such schematic arrangements. The aim of Weber's concepts is merely to present what sociological characteristics are revealed by any historical phenomenon.

The sociology of understanding as an aid to the knowledge of concrete and individual relationships, became very fruitful and significant for the knowledge of the connections between the individual orders of life. Weber called his work "economics and the social orders and forces" and he sought to clarify their relations. In his theoretical studies Weber has pointed out the fact that the sphere of economic life cannot be explained only in terms of immanent and internal development. Events in the political and religious spheres may often be more relevant to economics and may either further or retard tendencies in economic development. On the other hand the structure and character of an economic order serve as conditions for political life and penetrate into the innermost forms of our personal life. Since he studied both the economic relevancy of all events of social life and how far economic forms served to create definite constellations and conditions for the political and social orders, his work reveals a characteristic fluidity of presentation without any point of equilibrium. Everywhere and always the motifs are swallowed up in an endless sequence and it is only the particularly chosen point of scientific interest that weaves together all the relevant links into one unified whole. The individual ideally-typical constructions and the fundamental sociological categories of economic life are thus formed on the basis of the cultural significance of modern capitalism. Not through ideographic concepts, but through Weber's sociological ideal types is it possible to understand unequivocally what were the conditions for the origins of capitalism in the West and what were the necessary conditions created by the modern state, modern bureaucracy, and the various forms of Western rationalism. Weber succeeds in developing the types of capitalistic orientation of industry and presenting the particular structure of modern rationalism oriented around chances of profits. For its origin and development, however, certain political and legal conditions were

necessary. Weber takes up the monetary system and policy of the modern state as a condition for the modern economic order and the significance of political organizations for the economic system. In a corresponding way his juridic sociology was concerned with the significance of the formal characteristics of modern law for capitalistic rationalism and above all with the importance of juristic rationalism for the peculiarities of the political and administrative structure of the modern European world. For it is not only modern capitalism that is characteristic of the West. Rational science, classes, parties, cities, the modern rationalistic structure of the state—all these are peculiar to the West. It is for this reason that the sociological categories in the chapters, "*Typen der Herrschaft*" (Types of Ruling) in his juridic sociology, and in the chapters on sociology of religion in his *Wirtschaft und Gesellschaft* all serve to contrast the various typical forms and constructions of Western rationalism with the tendencies of rationalist thought in Asia, above all in India and China.

By extending the aims of knowledge beyond the confines of the relationships between economics and the great social forces of state, religion and law, this sociology took on a most comprehensive aspect. It represents the first grand attempt to realize an empirical sociology of the forms of rationalism and its interacting influences on the emotional and irrational attitudes of Western man. His investigations into the sociology of religion also sufficiently demonstrated to him the enormous role of modern rationalism in the emergence of the reformed religions and how it continued its influence in Tridentine Catholicism and the Counter Reformation. Parallel with and in immediate relation with this rationalization of consciousness, however, came a deepening and an inward turn toward the irrational religious attitudes and also to the emotional life, such as never existed in the Middle Ages. Corresponding events occurred in political life in the legitimization of the power of sovereignty. The chapter on "Nation" is a most instructive example of the necessary increasing irrationality of the legitimacy of the state in mass democracies and the

increasing depersonalized bureaucracy. Here are actual problems which will occupy the attention of several generations, for they are only indicated by Weber and need extended individual study.

It is characteristic of these concepts developed by Weber that they proceed from a certain formal abstractness to a relatively concrete and individual fullness. The fundamental concepts of the first part of his sociology, especially, border closely on the categories of formal sociology, while the later sections, above all the fragments of the second and the third parts, reveal concepts with a strong historical and concrete content. It would lead us too far afield here, and beyond the limits of a general introduction to the work of Max Weber, to go into the various stages and forms of the concepts of ideal types in Weber. Only so much need be indicated, that wherever the sociological categories are developed in their purest form, such as "traditionalism," "charismaticism," "secularization of the charisma," they signify basic sociological phenomena, actual tendencies of activity which are structurally possible here or there or at any time. Tradition and charisma determined exclusively the motives of action in the prerationalist epochs. Tradition and custom are the ruling forces of routine daily life in all integrated epochs. The charisma of religions and political leaders and heroes, born out of need and enthusiasm, is the revolutionary force in such epochs.

It is no mere accident that these categories assume such a dominant role in the work of Weber. Tradition and economic daily life stand in polar position to charisma. Charisma as a sociological category signifies not a value judgment but merely that quality of appearing as leader because of extraordinary achievements, which must be legitimized by verification before his followers. The concept, therefore, is wholly independent of whether or not the individual is accorded "objective" greatness.

If it is our activity, however, which gives meaning to history, then Weber must be rightly interpreted as maintaining that it is the charisma, which as "introduction of meaning" (*Einbruch von Sinn*), effects a revolutionary transformation and progress of man

not only in the external institutions of the world but also in the inner being of man. Reason also has worked as a revolutionary force, internally as intellectualization, externally as a transformation and reorganization of the entire order of living in the modern world. But this very new form of daily existence—no longer traditional, but dynamic and oriented toward the rationalistic chances of modern economy, and increasingly rationally organized and institutionalized—makes all the more problematic the revolutionary power of charisma as one of the external forces of bringing human greatness into view. "The charismatic transfiguration of 'reason' is the final form which charisma has taken on its fateful road."¹ The prospect, like the general character of Weber's sociology, is one of somber character. It appears that the rationalistic existence of modern man completely crushes the possibilities for greatness and charismatic leadership.

¹ *Wirtschaft und Gesellschaft*, p. 817.

HONOR AND SOCIAL STRUCTURE

BY HANS SPEIER

I

THE life of the king Ahasuerus had been saved by Mordecai, uncle and guardian of Esther. The king permitted him to be dressed in the royal robe and to wear the royal crown. On one of the king's horses Mordecai rode through the streets of the capital, conducted by a prince who announced, "Thus shall it be done to the man whom the king delighteth to honor" (Esther, VI). By another king, or perhaps even by Ahasuerus himself at another time, it was granted to another man to wear the royal robe, but the king added, "You shall do so as my fool." Thus, in a form very similar to the honoring of Mordecai, the second man was dishonored. These two stories lay bare, in a lucid, simple fashion, the origin and nature of honor.

A man's honor neither springs from his personality nor clings to his deeds. It depends upon other men who have the power to bestow honor on him and a will to pay it. Mordecai did not immediately rise to honors by virtue of his having saved the king's life. The Bible relates that his deed remained unrewarded for a time and obtained its recognition only by chance. Ahasuerus had forgotten Mordecai until a certain day when the chronicles were read before the king. He inquired then what distinction had been done to Mordecai, and the servants answered that he had not been rewarded. It was only after this accidental mention that King Ahasuerus decided to honor his subject.

Even before Mordecai was honored, his rescue of Ahasuerus may have become known in the capital and may have been praised as prudent or good. Both the man and his deed may have been already famous—perhaps the place, too, where he had discovered the plot. For fame can attach to anything, to men, things, events, places, ideas. But honor is paid only to a man, or to God.

Ahasuerus' will to honor Mordecai did not suffice for the creation of honor. The king bestowed honor, it is true, but this act did not assure general homage. For that it was necessary that the king's will and intention be proclaimed to the people. Honor would not have been brought into social existence had its bestowal been known only to Ahasuerus and Mordecai. The relationship would have remained private. The king would have entered it in gratitude, or perhaps in friendliness, and possibly the private distance between the two would have been shortened, but the king would have been acting as a man, not as sovereign. In that situation it would have been impossible to express his gratitude by bestowing honor on his friend. If Ahasuerus as a friend had lent his crown and robe to Mordecai, for Mordecai to array himself in them only in private, it would have been a senseless act, conceivable only in one whose kingship had deprived him of the qualities he should possess as a man. The relations of private distance require other forms of expression than those of vertical public distance.¹

Ahasuerus' act, which raised Mordecai above the other subjects, shortened the vertical public distance between the two men without necessarily touching their private relations. Ahasuerus may

¹ I cannot justify here my preference for the terms "private distance" and "public distance" to the distinction between the concepts "horizontal" and "vertical," "subjective" and "objective" social distance; in my opinion every social distance can be traced to a vertical relationship. But I shall mention the most important discussions of the concept of social distance, indispensable for an analysis of social stratification. The references given by Earle Edward Eubank, who introduced the concept of "lateral distance," in *The Concepts of Sociology* (New York, 1931, pp. 453-4) include the studies by R. E. Park, E. S. Bogardus, W. C. Poole, Jr., P. Sorokin and L. von Wiese.

Sorokin, in *Social Mobility* (New York-London, 1927, pp. 3 ff. and 9 f.), mentions the earlier writers who dealt with the problem, but not Hume. Reference should be made also to Walther, Andreas, "Soziale Distanz" in *Kölner Vierteljahrshefte für Soziologie*, vol. ix (1931). Cf. also the studies by Günther Müller, the German historian of literature: "Gradualismus. Eine Vorstudie zur altdeutschen Literaturgeschichte" in *Deutsche Vierteljahrsschrift für Literaturwissenschaft und Geistesgeschichte*, vol. ii (1924) pp. 681-720; "Höfische Kultur der Barockzeit" in Naumann, Hans, and Müller, Günther, *Höfische Kultur* (Halle 1929). In his *Geschichte des deutschen Liedes vom Zeitalter des Barock bis zur Gegenwart* (Munich 1925) Müller employs the concept of *Distanzhaltung*.

have been more intimate with his lowest servant. The meaning of Mordecai's ride through the streets, and of the proclamation in the king's name, was that this subject should be honored, not that he was Ahasuerus' friend.

Thus for honor to arise it is essential that there be bearers, bestowers and observers of honor. The observers, who are to be understood as those who pay honor, may on occasion perform the same function as the bestowers of honor, but theoretically they must be distinguished. The problem of the relationship between personal honor and honor in the sense in which it has been used here will be discussed in Section v.

II

The extent of the circle in which honor is paid is determined by two factors: the number of persons familiar with the claim that honor is to be done, and, more directly, the number of those who are willing to pay it. At first Mordecai was honored only in the city; as the news spread into the many provinces of the kingdom, the circle of honor extended. Correspondingly, with the shrinking of the circle, honor is threatened. It is lost by the statesman *incognito*, the explorer cut off from his country among a primitive tribe. Possibly the explorer gains new distinction, say by his ability to light a match, but this new honor is subject to the same law: its extent shrinks in proportion as the knowledge about it diminishes, and if there is complete ignorance of this prowess he has neither honor nor fame.

In the first quarter of the nineteenth century Chaca, the chief-tain of the Zulus, was famous and highly feared in Africa. During the two years that followed his accession he is said to have deprived more than two hundred communities of their independence, by means of his perfectly disciplined army, and to have brought under his sway half a million people. His fame and his honor spread far beyond the limits of his realm.¹ But very few white men know of Chaca.

¹ Young, Kimball, *Source Book of Social Psychology* (New York 1926) p. 590.

The dependence of honor, fame and glory upon some kind of proclamation can be exemplified in various cultures and in many forms. Every social structure has its special proclaimers of fame, individuals or institutions that perform the function of spreading fame to the wider public. Edgar Zilsel, who studied the origin of the concept of genius in Greek and Roman antiquity and in the Renaissance, arrived at the conclusion that with the growth of an urban money economy intensified needs for fame and immortality assert themselves, unless religious interests exercise a diverting influence. Under these circumstances a class of literati arises, proud of its knowledge and technique, whose professional function is the spreading of fame.¹

Professional proclamation of fame is not limited, however, to urban cultures. In pagan Arabia, for example, men whose ancestors were not distinguished, or who were unable to speak the Arabian language, were exposed to contempt. In both war and peace, a factor of decisive importance for the prestige of a tribe was the poems sung about it. A fight in poetry between two tribes meant the beginning of war; when this defamation by songs had ceased, the war had come to an end. Thus the poets exerted a sometimes portentous influence upon the Arabian tribes by spreading their good or bad fame. Mohammed's disapproval of poetry as an agency for fostering rivalry among the tribes was closely connected with his attempt to substitute for tribal organization a brotherly and disciplined community.²

In modern society, press, film, radio and the other agencies for expressing and controlling public opinion are the chief instruments with which fame and honor are spread.

The second factor determining the extent of the circle in which honor is paid is the number of those who are willing to pay it. King Ahasuerus' power to honor and to dishonor is not as unlimited as it appears, for it depends upon the recognition of those who are to be subjected to his will. This holds not only for the

¹ Zilsel, Edgar, *Die Entstehung des Geniebegriffs* (Tübingen 1926).

² Goldziher, Ignaz, *Muhammedanische Studien*, part i (Halle 1889) p. 49 ff.

ruler's order that honor be paid, but for all his orders. It holds not only in democracies but in all kinds of governments, even in dictatorships. In a word, it holds for all relationships of authority, whether they rest upon persuasion, slavery, discipline or any other basis.

The test of authority is always its power of obtaining obedience. Accordingly the very existence of authority presupposes a certain freedom of choice on the part of the subject.¹ There is profound wisdom hidden in Hegel's paradox that "the essence of authority is the reverse of that which it wishes to be."² Only in the case of actual physical compulsion does the last vestige of freedom disappear.

Since the payment of honor to Mordecai contains a recognition of the royal bestowal of honor, it might be supposed that Mordecai's honor is based on the king's power. In connection with this same Biblical tale Thomas Hobbes, for example, has declared, ". . . of Civill Honour, the Fountain is in the person of the Common-wealth, and dependeth on the Will of the Sovereigne . . ."³ But this judgment is open to question. Suppose Ahasuerus had been a crowned rascal whom his subjects obeyed but who was in privacy the object of their deepest hatred. In that case his rescue would probably have been followed by the people's secret maledictions. The bestowal of honor upon Mordecai would have had only their apparent approval. Honor would have been paid him, possibly even in the same form, but it would have been feigned. There is no difference between genuine and feigned observation of honor. But honor itself does not permit of counterfeit. The function of one who pays it is not performed by acts alone, as is the case with obedience. Honor requires valuations,

¹ Cf. the analysis of superordination and subordination in Simmel, Georg, *Soziologie*, 2nd ed. (Leipsic 1922) pp. 101-85. Cf. also Duprat, G. L., "La sociologie des hiérarchies sociales" in *Annales de l'Institut International de Sociologie*, vol. xv (1928) pp. 173-316.

² Hegel, G. W. F., *Phänomenologie des Geistes*, ed. by Georg Lasson, 2nd ed. (Leip-sic 1921) p. 129. Cf. the whole philosophical discussion on the relation between master and servant, pp. 123-31.

³ Hobbes, Thomas, *Leviathan* (Everyman's Library ed.) pp. 45-6.

and valuations lie outside the political realm in which authority remains and is satisfied. The degree of freedom that enters the relationship of authority does not touch the essence of authority, nor do the motives of the one who obeys: only the actual obedience matters. In contrast to obedience the payment of honor, however, depends on the intention of the act rather than on the act itself. If those who seem to be paying a man honor do not approve the valuation included in its bestowal, the essential quality of honor is denied; their obedience signifies not the payment of honor but merely their submission to power. It is evident that the bestowal of honor can be performed by persons other than the observers only if there is agreement on what deserves to be honored.

III

The subjects of honor are many—strength or beauty, cruelty or sorcery, virtue even though it be impotent. Its content is relative, or, as Hobbes says, "temporary." There are no activities which are honorable in themselves and are held excellent in all social structures. In some primitive societies physical strength is honored, in others, age; in some the possessor of wealth, in others the magician. More highly developed societies often accord honor to the wealthy, but many instances are known in which wealth receives no more honor than poverty. In old Japan the rich rice dealer ranked below the poor craftsman he employed.¹ The Prussian Junker, even when he was impoverished, maintained his superiority in social esteem to the bourgeois rich. In modern Germany the soldier enjoys conspicuous honor, but the soldier's prestige is relatively low not only in countries so unaccustomed to war as Holland but also in France, whose history has been by no means peaceful and whose armaments are perfect. As to the artist, he has not been honored in all cultures. Even in Greece, where art was a very important part of life, very little prestige was granted the artists. Plato put them on a level with the ship

¹ Hearn, Lafcadio, *Japan. An Attempt at Interpretation* (New York 1924) p. 270.

builders and the other craftsmen, and Plutarch compared artists and poets with perfumers and dyers; of all of them, he said, it remains true that "we enjoy their work and despise the master."¹ In short, whatever activity is examined reveals the greatest variety in the valuations attached to it.

It is very tempting to try to stabilize this historical relativity of honor by finding a general formula which will define its contents. But the search is hazardous. Fahlbeck's opinion that those whose concern is with the religious, ethical, intellectual and aesthetic aspects of life are "usually" highly esteemed² does not answer the question. "Usual" is but a seemingly neutral term for "normal"; the quest is for the contents of honor not as we would like them to be, but as they are.

The theory has also been offered that the social order of ranks corresponds to the social utility of the classes.³ Those who satisfy the most urgent needs in a given society are the most highly esteemed, those who supply the least important demands rank lowest. But it can be proved that to those who provide society with the same social utilities different values are attached in different social structures. Under Japanese feudalism the farmer ranked relatively higher than the farmer in feudal Europe, though no conspicuous difference can be discovered in their respective social utility. In different cultures the utility of the physician may vary, but scarcely enough to explain his extremely low rank in the Indian caste system, where the majority of the Brahmans prefer for ritual reasons the lowest service in the house to the ministrations of a physician.⁴

Since no correlation can be established between the social utility of a function and the honor it receives, it might be contended that the evaluations which determine the content of honor de-

¹ Quoted by Zilsel, *op. cit.*, p. 28.

² Fahlbeck, Pontus M., *Die Klassen und die Gesellschaft* (Jena 1922) p. 101.

³ For the sake of the argument the possibility is disregarded that the order of rank in terms of honor is obscured by the order of rank in terms of power.

⁴ Weber, Max, *Gesammelte Aufsätze zur Religionssoziologie*, vol. ii (Tübingen 1923) p. 59.

pend on the relative importance which society attaches to its various needs. Mitgau has incorporated in the system of needs themselves the historical factors making for the relativity of honor. Instead of positing a fixed hierarchy of needs, he assumes that the urgency of needs is in itself subject to change. The religious need, for example, can be strong or weak, and thus with any other need. Then in a certain society the high rank, say, of the priest, is attributable to the urgency of the religious need, and other differences in rank can be similarly explained.¹ But it is obvious that this analysis cannot lead very far, because it is based on a circle conclusion. Rank is explained according to urgency of need, while the degree of urgency is recognized in relative rank. 3.

Thus the essence of honor cannot be derived from the contents of the honorable, and there remains only the formal determination that honor always attaches to what is held to be excellent. What specific excellence is meant derives not from honor itself but from its bestowers and its observers. There is pungency and conviction in two concurring opinions to be found in French literature. Vauvenargues has declared that "esteem is an inner approval of the merit of something; respect is the *sentiment* of someone's superiority."² And the Jansenist, Pierre Nicole, is even more precise: "What is generally called honor has almost no certain object. Men place it where they want, according to their fantasy, and there are few honorable things which could not become ignominious by another turn of imagination; therefore although honor does not depend upon our inclination to love honor, nor on the belief that this attitude is natural, it depends nevertheless upon the inclination to attach it more to something than to something else."³ 4.

From the fact that honor is derived from a concept of excellence

¹ Mitgau, J. H., *Familienschicksal und soziale Rangordnung* (Leipsic 1926).

² Vauvenargues, *Introduction à la connaissance de l'esprit humain*, ch. 40, "De l'estime, du respect, et du mépris."

³ Nicole, P., "Honneur" in *Pensées de Pascal suivies d'un choix des pensées de Nicole* (Librairie de Paris) p. 365.

it is inevitable that the process of honoring creates hierarchical distinctions. The order of ranks which it sets up determines the image of the right life. He who honors regards the bearers of honor as ideals, be they gentlemanly or violent, be they addressed "Your Reverence" or, as Chaca was, "Sigidi," which means "thousand" in reference to the number of men he had slain.

Fame does not establish distinctions of rank. In contrast to honor it is not bestowed and observed, but only spread. Fame grows with the number of those who are conscious of it. Some one may be more famous than another who excels him in honor, for honor does not increase with the number of the observers. Its greatness depends rather upon the distance of the man who is honored from the bearer of highest honors, that is, it is determined by the extent to which the man lived up to the image.

IV

Montesquieu declares that there is no honor under despotism and in many cases not even a word for it. The life and death of his subjects are at the arbitrary disposal of the despot, and if a subject imposes his own death in defense of his honor, then death imposed by the despot is no longer effective as an instrument of tyranny and thus tyranny and honor are irreconcilable.¹

But Montesquieu's opinion is based on the untenable assumption that an integral part of honor is the conviction that death is preferable to a life devoid of honor. The honor of a craftsman is strict and precise in its requirements, but it does not necessarily demand death as the penalty for its violation. Even the code of the samurai, which imposes suicide if allegiance to an immediate superior entails the violation of allegiance to the highest superior, cannot be considered irreconcilable with a despotic regime, because the samurai in inflicting his own death may be conforming with the will of the tyrant. His code, in other words, constitutes honor for him but merely convenience for the tyrant.

There is more validity in Montesquieu's further contention that

¹ Montesquieu, *L'esprit des lois*, book 3.


honor has no place in tyranny because the arbitrariness of the tyrant is irreconcilable with rules established by honor. The perfect tyrant has a monopoly of bestowing honor, but he cannot use it. His tyranny would be diminished if he did. If his rule is entirely arbitrary, all ranks are leveled,¹ not only because he cannot permit one to be less dominated than another but also because the obedience of all is concentrated in himself. And he cannot himself be honored, because his rule admits no certainty. In Plato's description the perfect tyrant is a man who, like a dreamer, is driven by wild and uncontrolled urges.² He cannot be honored because, as La Bruyère has said, "a man of unsteady mood is not one man, but several."³ The tyrant's unpredictable whim can change the forms of paying honor into forms of disrespect. Thus if honor is paid to him he ceases to be the perfect tyrant, for the possibility of doing honor to him is a contradiction of his nature. The closer tyranny approaches perfection the less honor can it receive. ✓

Honor is incompatible with tyranny in another, more important, respect. It establishes, as has already been mentioned, definite rules about the conduct of life. The one who pays honor expects the bearer to conduct his life in accordance with certain rules, which constitute the code of honor. These rules consist in definite prohibitions and duties which refer primarily to activities of vital importance, such as the public relations with the opposite sex and the circle with whom social intercourse, especially at meals, is permitted. Intermarriage, commensalism and social intercourse with persons of lesser honor are prohibited. Except in the caste system, all these rules pertain to public relations. In private relations honor is concerned only if infractions become known, that is, if the private character is lost. The circle of honor extends also to occupational activities; frequently all occupations are taboo for the bearers of highest honor, always a

¹ Cf. the examples in Simmel, *op. cit.*, p. 112 ff.

² Plato's *Republic*, book 9.

³ La Bruyère, *Les caractères*, ch. 11, "De l'homme."



few are considered ignominious, and between these two extremes they receive gradually differing valuations.¹ The Greek nobleman was considered base if he himself sailed the ships which he financed. In the Middle Ages social contempt of the minstrels was so great that they were even excluded from the sacrament of the communion. Sometimes their derogation was given a scornful implication, as for example in the old Swabian *Landrecht*, where it was declared, "minstrels and all those who take goods for honor, to those one gives a man's sun-shadow; that is, he who has done them harm, and shall atone for it, shall step before a wall shone upon by the sun and the minstrel shall go to him and beat the shadow on the wall at its neck. With this revenge penance shall be done."²

In this or that way honor sets up boundaries; it disciplines life. As a result of its hierarchical nature it not only determines the realm of the taboo but also sets up a scale of excellence in the realm of that which is permitted. A perfect illustration is afforded by the system of knightly virtues in the European Middle Ages. On the basis of the four ancient virtues of wisdom (*prudentia*), fortitude (*fortitudo*), temperance (*temperantia*) and justice (*justitia*), the honorable (*honestum*) was determined precisely, so that every detail of behavior would be referred to one of the four cardinal virtues. Under fortitude, for example, was subsumed *magnanimitas*, that is, an ennobled vitality; under temperance, restraint in behavior (*modestia*); under *justitia*, the Christian virtue of *miser cordia*; under *prudentia*, the rule to speak neither too much nor too little (*circumspectio*).³ Thus honor establishes a specific kind of order in life, based on implicit

¹ Cf. Veblen, Thorstein, *The Theory of the Leisure Class*.

² Quoted by Hampe, Theodor, *Die fahrenden Leute in der deutschen Vergangenheit*, 2nd ed. (Jena 1924) p. 19. For the legal significance of honor in German history cf. the survey in Gierke, Otto, *Deutsches Privatrecht*, vol. i (Leipsic 1895) pp. 416-33.

³ Cf. Naumann, Hans, "Ritterliche Standeskultur um 1200" in Naumann and Müller, *op. cit.*; Tupper, Frederick, *Types of Society in Medieval Literature* (New York 1926); Mohl, Ruth, *The Three Estates in Medieval and Renaissance Literature* (New York 1933).

duties and prohibitions. But tyranny lacks order and cannot tolerate its imposition.

v

To the excellence required by honor there always corresponds a specific form of behavior, which may be called dignity, varying according to the concrete content of honor. Dignity, be it that of a prince or of a thief, always serves to demonstrate that the distinction between high and low contained in honor, and more specifically the code of honor itself, are as compelling for the bearer as he expects them to be for the observers. This compelling force manifests itself in "personal honor," which determines a man's moral integrity, and through which the code becomes a part of his personality. In other words, honor has a double aspect. From the point of view of the observers it displays its relativity as a social phenomenon; for it is time-bound and dependent on valuations. From the point of view of the bearer, however, honor is absolute, for in the integrity of the man of honor there can be no suggestion of relativity. Personal honor obliges him to orient his behavior toward definite rules, which are to him absolute. Sir William Segar, who wrote a valuable book on honor in 1602, noticed this double aspect of the problem. Attempting to reconcile his opinion with the idea of Aristotle, so frequently quoted through the Middle Ages and the Renaissance, that honor does not depend on him who receives it, Segar suggested: ". . . reverence is only the first motive to honour, which after becommeth honour absolute. The like difference is between honour and praise, for honour [i.e. "personal honor"] is of it selfe; but praise tendeth to a further end."¹

Since to the bearer honor is absolute, a man's loyalty to his own standards must be independent of the opinion of others. His personal honor is violated if even in privacy he fails to meet its requirements. When a man of honor is faced with a difficult decision he is in danger of losing his honor as long as he is un-

¹ Segar, Sir William, *Honor* (London 1602) pp. 209-10. ●

certain as to whether he should follow its demands of him. Since he is divided into two parts, he represents two persons: as the man whose personal honor demands that he do *this*, he is to himself the image of the right life; as he whose convenience, or safety, or comfort, suggests that he do *that*, even though it violate his honor, he is a potential apostate from that image. His moral monologue is in reality a dialogue, which corresponds to the relation existing in public honor between the observers and the bearers, where the two are different persons.

The double aspect of honor explains the striking contrast between those theories in which the social origin is made the point of departure for the analysis of honor and those in which the absolute character of personal honor is the focus of the examination.¹ Both points of view are seen to be tenable, provided that neither excludes the other.

It can still be objected that "personal honor" is the result of a man's personal valuations, independent of the bestowal and observation of social distinction, so that its absolute character derives from the fact that it has no connection at all with public honors. But such an autonomy of personal honor presupposes a social situation in which no agreement exists concerning what is excellent. It can be demonstrated by a historical analysis that the modern individualistic notion of "personal honor," as independent from any other's opinion, is a polemic conception which served the middle classes in their struggle to overthrow the feudal conception of honor. One of the most important aspects of this struggle was the finally successful attempt of the middle classes to make the soul and the mind rather than acts and deeds the fountainhead of honor. The conspicuously honorable behavior of the nobility was devaluated to mere gestures, irrelevant politeness, symbols of an insignificant order, against which was set up a realm of "natural" inner quality accessible to everyone

¹ For a careful discussion of some theories of honor from the second point of view, cf. the chapter on sociology of honor in Salz, Arthur, *Das Wesen des Imperialismus* (Leipsic and Berlin 1931) pp. 103-73.

alike. For France this historical development, which included several transformations of the conception of the *honnête homme*, has been studied with enough care to permit relatively concrete statements. Magendie, for example, discovered that in the first half of the seventeenth century the writers who belonged to the middle classes or to the lower nobility (*petite noblesse de robe*) held chiefly those qualities of the soul in high esteem which they called solid and permanent. It was to these qualities that they attached the honor and dignity of man.¹ They protested against the "abuse" of the term *honnête homme* in its application to persons who lacked "moral quality."

The rise of autonomous honor was much more complicated than is frequently assumed. It was by no means an achievement of the Enlightenment alone. Christian theologians in France, especially the Jansenists, were instrumental in its development; Nicole and Pascal were especially important figures.² But the Jesuits also contributed to the overthrow of the feudal honor, a fact which is not sufficiently taken into account in Max Weber's sociology of religion. The Jesuit, Louis Bourdaloue (1632-1704), court preacher of Louis XIV, combined a disapproval of idleness, whether of the noble or of the miserable, with a high esteem for merchants, craftsmen, and all men of the middle classes who obtained their livelihood by work (*médiocres états de vie qui subsistent par le travail*); and in accordance with this he declared that the true basis of respect is the devotion to one's duty.³

¹ Magendie, M., *La politesse mondaine et les théories de l'honnêteté en France au XVII^e siècle, de 1600 à 1660* (Paris 1925) p. 896.

² Cf. Pascal's distinction between *estimer* and *saluer*, between *grandeurs d'établissement* and *grandeurs naturelles*. "I do not need to hold you in esteem because you are Duke; but it is necessary that I salute you." Cf. Pascal's "Sur les conditions des grands" in his *Pensées*.

³ Bourdaloue, Louis, *Oeuvres de . . .* (Paris, Didot Frères, 1865) vol. i, p. 561 and vol. iii, p. 391. Cf. especially "*Illusions et grandeur d'une grande réputation*" in vol. iii, pp. 445-50, and the "*Sermon pour le dimanche de la Septuagésime. Sur l'oisiveté*" in vol. i, pp. 556-65. It was Bernhard Groethuysen, in his *Origines de l'esprit bourgeois en France* (Paris 1927), who first called particular attention to Bourdaloue in this respect. For England, cf. Ustick, W. Lee, "Changing Ideals of Aristocratic Character and Conduct in Seventeenth Century England" in *Modern Philology*, vol. xxx (1932-33) pp. 147-66.

This short discussion must suffice to suggest that it is only under special social conditions that the modern notion of autonomous personal honor arose. Personal honor, it is true, is always absolute to the bearer; by the very fact that he decides a moral question man disregards the relativity of honor. But this relativity is revealed when man himself, as he exists in a time-bound society, is made the subject of consideration. And the idea that personal honor is independent of social valuations, because the individual sets up his own code of honor, presupposes a social situation in which representative behavior is devaluated and is considered to be no more than empty forms which are perhaps either pleasant or ridiculous, but in any case utterly insignificant when compared with the inner moral quality of man. In the struggle against the nobility this quality was called true, just, real, natural, universal. It was made the basis of "independent personal honor," but it was held to be independent only because immaterial sources of honor were mobilized against the socially conspicuous status in which feudal honors resulted. The independence of personal honor from public valuations was but an illusion; a public that considered itself totally reducible to autonomous individuals substituted for a moribund kind of honor new valuations in which precisely the moral autonomy of the individual was made a point of honor. In this tremendous spiritual revolution it was forgotten that the autonomy of the individual emerged from his aspiration to a higher status.

VI

Since the order which honor creates is hierarchical, honor is no less incompatible with equality than with tyranny. This does not preclude the possibility that equals may confer honor; but it should be noted that in so doing they create inequality. The incongruity between equality and honor results necessarily from the analysis, but it deserves further consideration.

The Romans denied that slaves possessed honor. A loss of freedom was followed not only by a diminution of honor (*minutio*

existimationis, or *infamia*), but even by its entire disappearance (*consumptio existimationis*, or *turpitude*). The lack of honor, according to the legal theory, was based on the notion that the slave was not a person but a thing; similarly in Japan the intentional killing of a *hinin* ("not human being") was not regarded as murder, and was punished only with a small fine. R. von Ihering¹ concluded from the slave's lack of honor that honor embodies the legal value of the person as such. Honor, he said, must be considered a legal concept, the corresponding sociological concept being respect; consequently, *infamia* and *turpitude* have to be sharply distinguished, and the modern distinction between *infamia juris* and *infamia facti* must be rejected.

Von Ihering was not aware that his sociological analysis was conditioned here by his juridical point of view. The difference between honor and respect does not correspond to that between law and society. Respect is rather the specific attitude of the observer of honor toward the bearer. In Roman law, it is true, legal honor was restricted to those who were free; freedom, however, was determined not by liberty alone but by this liberty in relation to slavery. The group of the free was socially superior to the group of the slaves. This legal honor was but a privilege, a legally guaranteed claim to receive, as the highest group, the respect of those who formed the lower group. If the contrast between the two groups is eliminated, by abolition of slavery, the origin and significance of the honor guaranteed by law are veiled, since legally everyone then bears honor equally; but man's honor still rises within a hierarchy.

Before examining this hierarchy it must be admitted, of course, that the tendency of honor to maintain social stratification, a tendency which is always conspicuous when individuals or specific subgroups within a *plurel* are honored, has entirely vanished when honor is legally universal and equal. But the loss of this tendency cannot be explained in terms of the difference between

¹ Von Ihering, R., *Der Zweck im Recht*, 4th ed. (Leipsic 1905) vol. ii, p. 388 ff. This admirable book deserves more attention from the students of social distance.

general honor and honor limited to a specific group. Rather it results from a sociological law according to which honor is socially the less effective the more frequently it is bestowed. The discriminating force of honor grows with the exclusiveness of its bearers. The smaller the circle of the honored, the greater the distinction to belong to it. Accordingly, inflations of honor may occur. The German iron cross, for example, was held in high esteem before 1914, since only a few men possessed it. In the course of the World War, however, it was so frequently bestowed that its value was greatly decreased. The same law holds true with respect to dishonoring. Cesare Beccaria, the famous Italian legal philosopher, has observed, "If we declare those actions infamous which are in themselves indifferent, we lessen the infamy of those which are really infamous. The punishment of infamy should not be too frequent, for the power of opinion grows weaker by repetition; nor should it be inflicted on a number of persons at the same time, for the infamy of many resolves itself into the infamy of none."¹

It must still be explained why honor is based on distinctions, even when there is no legal stratification of society. The notion of equality tends, it is true, to level differences, but not necessarily the differences arising from vertical public distance. The medieval dance macabre, in which the mundane distinctions of status and rank were suspended, since death seized the emperor as well as the beggar, did not touch the foundations of the social order of ranks; rather it demonstrated the relative insignificance of social order as compared with the supersocial order. It is obvious that a will to abolish secular ranks presupposes precisely the opposite notion that a final significance attaches to secular status.

But apart from that, if the distinctions which establish honor

¹ Beccaria, Cesare, *An Essay on Crimes and Punishments, with a Commentary by M. de Voltaire*, new ed. (Albany 1872) p. 83. Montaigne also recognized the connection between honor and exclusiveness; cf. his *Essays*, book ii, ch. 7. Balthasar Gracian in *The Art of Prudence* (transl. by Savage, London, 1702, p. 266) advises "to make absence an expedient for being both respected, or esteemed."

do not consist in arbitrary distinctions between man and man, they must be sought in man's nature itself. Obviously man is honored not because he is equal to everything that exists, but because he is different from and superior to something. He is not honored as a work of nature, as a mere creature of the animal world. His honor arises from something specifically human, by means of which he excels nature; it may be reason and free will, or it may be, all inclusively, the belief that man is created *ad imaginem et similitudinem Dei*. In the latter case his honor belongs to his primary natural rights and is derived, like all rights of this kind, from man's duty to pay honor to God; his honor, then, is good if its principle is charity (*caritas*).

It is unnecessary to raise the question as to whether either theology or philosophy recognizes the superiority of man over nature as something objective, or merely imputes it to him.¹ The only consideration that is relevant here is the fact that a hierarchical character of human existence is an essential condition of human honor, and that man's respect, honor and dignity can arise only in a culture in which the higher and lower in man is precisely distinguished.²

If such a distinction is made, and is socially valid, the command to pay honor to animals or things implies an insult to human dignity. When in war horses are regarded more highly than men, the preference is a sign of monstrous inhumanity and of man's degradation only on the assumption that man should be valued more highly than horses. Only on the same assumption can it be inferred that in the Swiss legend of Wilhelm Tell the *Landvogt*, Gessler, meant to humiliate and degrade the peasants when he commanded that his hat, fixed on a stick, be greeted by the populace. And again, only the assumption that man is superior to animals can justify the deduction that Caligula's order to pay

¹ This problem surpasses both the interest and the competence of sociology. To sociology only the requirement of distinctions matters, and their actual social existence, not the reasons for which they are made.

² Cf. Schiller, Friedrich, *Ueber die aesthetische Erziehung des Menschen*, 24th letter.

to his favorite horse the honor of a consul was an act not of honor to an animal but of dishonor to men.¹

Even if man were dishonored it could only be because the emperor was adjudged to have the ability to dishonor him. For just as honor contains an evaluation of the bearer by the payers of honor, violation of honor rests upon the bearer's assumption that the violator is able to violate. Thus children and fools are forgiven when they do not pay homage to the king, and the dolt violates the honor of the philosopher only if the philosopher enables him to do so.² These mutual evaluations as bases of the violation of honor were institutionalized in the test of ancestors prescribed in the Middle Ages for establishing a warrior's ability to engage in a tournament. Such evaluations are necessary for every violation of honor, no matter how small or large the circle of bearers may be; they are indispensable even in the case of national honor, where the circle is very large and lacks the criteria of general human honor. In this connection Schopenhauer was moved to remark that every pitiable fool who has nothing to be proud of snatches at the last straw of being proud of the nation to which he accidentally belongs.³

VII

In static social structures the principle underlying the distribution of honor is not questioned; thus the claims to highest honor are not advanced in the name of various kinds of honor, because in such societies there is only one basis for highest distinction. The various noble families in medieval cities who fought among themselves for highest rank adhered to the same principle of honor; their struggles were for power alone. But if different principles of honor are launched by those striving for highest honor, the struggle assumes another character; the social structure

¹ The last two examples are mentioned by von Ihering, *op. cit.*, p. 389 n.

² Cf. the collection of amusing examples mentioned with grim satisfaction by Arthur Schopenhauer in his *Aphorismen zur Lebensweisheit*, ed. by Frischeisen-Köhler (Berlin) vol. vi, "Sämtliche Werke," pp. 341-89.

³ Schopenhauer, Arthur, *op. cit.*, p. 348.

has become dynamic. The position of highest honor is then claimed by various honors, even though the actual power may be still undivided in the hands of one group, defending its power or its honor or both. Thus dynamic social structures are characterized by a pluralism of honors.

Since the highest honor can never be bestowed, a fact which follows from definition and is self-evident in the attributes accorded to God, a pluralism of honors means disintegration of the homogeneous hierarchy characteristic of the static system. The rising groups, refusing to renounce, for the sake of their new honor, the claim to power allied with the old, and refusing also to allow the old honor to be bestowed upon them, try to establish new hierarchies by usurpation. The usurpation of honor corresponds, in dynamic social structures, to the bestowal of honor in static systems. An historic example of the latter is the absorption of the English middle class in a relatively fixed hierarchy; instances of usurpation are the French and Russian revolutions. But just as "dynamic" and "static" social structures are not necessarily defined by their economic organizations, the usurpation of honor does not exclusively manifest itself in political revolution. At the end of the eighteenth century, for example, the German nobility began "to study with middle class seriousness; thereby it put a one before its cipher of birth."¹ The polemical formulation of this contemporary statement indicates a struggle between the principles of honor based respectively on birth and education. But education, the new middle class principle of honor, was asserted without a political revolution.

It is possible that a pluralism of honor includes a specific kind of impotent honor, known only to a very small group. Such an isolated honor would be found, for example, in an esoteric circle of men who in the midst of capitalism, by continuing to distinguish men according to their endeavor to obtain profit or "honor" on the basis of the four cardinal virtues, remained loyal to the

¹ Schlözer, August Ludwig, *Theorie der Statistik, nebst Ideen über das Studium der Politik überhaupt* (Göttingen 1804) p. 136.

old code of honor which had fallen into disrespect through the degeneration of the nobility and the rise of the bourgeoisie. Similarly isolated is the position of intellectuals who within a closed circle refuse to measure a spiritual achievement according to its utility, even though the social structure in which they live favors the confusion of utility with truth. Thus while there is no current recognition of any distinction between the ideas representing partisan interests and those demanded by a search for truth, the small group holds fast to the distinction, preserving its value in solitude and making this value a basis of isolated honor.

Pluralism of honor has a highly important bearing on the practical conduct of life in dynamic social structures, for it means that several images of the right life compete with one another. The individual image loses its representative force, because the realms in which the various images are recognized as valid are usually not separated according to groups formed by economic or political interests, but rather along the lines of demarcation between the various spheres of life, such as politics, art, economics. In other words the different images are valid not for different groups, but for different activities of men; various codes of honor overlap in the same individual. Thus, with pluralism of honor, life threatens to dissolve into relativity.

As an illustration, let there be assumed a "capitalistic society" in which labor is strongly socialistic, and in which the capitalists are not only powerful but also observe a certain code of honor. This assumption is not unrealistic. Under these conditions it would be reasonable to find that the workers do not pay honor to the capitalists, because as socialists they attempt to assert another honor, different from that of the capitalists which they deny and despise. It would be reasonable, in other words, to find two kinds of honor precisely corresponding to two different groups. In reality, however, the situation is more complex. Every day, though perhaps unconsciously, the workers observe the honor of the capitalists as superior to their own; they do so by recogniz-

ing the capitalist's life as an ideal. For example they are willing, if not as a group then as individuals, to rise in the social scale and become capitalists themselves, if this is possible. In this respect the capitalist represents for the worker an image of the right life. In æsthetic taste or in particular moral matters, such as honesty, or in educating their children, the workers imitate traits of the capitalist's conduct of life. Thus their apparently fundamental disagreement concerning the capitalist's honor is not complete; they oppose it in some but not in all respects,¹ so that their life is oriented toward two images. The fact that in certain respects capitalists and workers observe the same code of honor does not abolish the essential relativity and the historical pluralism of honor. It means only that both groups belong to the same culture, a heritage which is broader than the particular status within it. But the culture represented by the capitalists is itself subject to change. In other words, the images which are valid for the various spheres of life change more slowly in some spheres than in others.

The social importance of imitation of ways of life by strata which rank lower than those who present the images was discussed even before Tarde by many sociologists and psychologists, very trenchantly, for example, by Mandeville. The phenomenology of honor emphasizes the important role of imitation, since imitation is but the counterpart of the image which is set up in the process of honoring.

VIII

The social image, or when there is a pluralism of honor, the several social images indicate the special character of a social structure. The difference between social structures can thus be understood by comparing the images which are typically valid. The difference between the social structures of England and Ger-

¹ An easily accessible field of research which would throw more light on this phenomenon of overlapping codes of honor can be found in a comparison of the fashions and political ideas of revolutionary groups with the fashions and opinions prevailing in the ruling groups.

many in the last third of the nineteenth century, for example, can be clarified by a comparative analysis of the contemporary "gentleman" on the one hand, and the "military officer" on the other, and the extent of the circles in which these images were imitated. Such an analysis leads farther than a comparison of the class stratifications in the Marxian sense of the term.¹ Since both countries were capitalistic the Marxian inquiry would emphasize only the homogeneity of the two social structures, and the distinctive conceptions of honor, which in this case are not apparent from criteria of economic power, would remain unintelligible. In the frame of the Marxian theory the social image represented in England by the gentleman is as "irrational" as the plurality of social images represented in Germany by the business man, the civil official and the worker, a plurality in which the military officer nevertheless asserted in many respects the predominance of his honor. Nor can the Marxian theory distinguish between social structures in which the ruling group lacks honor and those in which its power is as honorable as its honor is powerful. But there is a striking difference between the two kinds of structure. The theory of honor which has been suggested here does not, like the Marxian theory, presuppose a decision about the causes of social rank, but its scope is broad enough for these causes, economic or otherwise, to be incorporated in its analysis.²

The concept of class compatible with this theory of honor cannot be found in Marx; rather its formulation must follow the line suggested by Eugène Dupréel: "A social class is a group placed in a hierarchy in a position above or below that of another group comparable to it, another class. The inequality of two

¹ Cf. Weber, Max, *Gesammelte politische Schriften* (Munich 1921).

² The attempt made by Georg Lukacs, in *Geschichte und Klassenbewusstsein* (Berlin 1923) pp. 229-60, to show that historical materialism permits the recognition of different "bases" of the historical process in different epochs is highly interesting but not in accordance with the anthropological presuppositions which are found in Marx's early writings.—For a more comprehensive critique of the Marxian class concept in its applicability to present social structures, cf. Speier, Hans, "Bemerkungen zur Erfassung des sozialen Struktur" in *Archiv für Sozialwissenschaft und Sozialpolitik*, vol. lxviii (1933) pp. 705-25.

classes or their hierarchical order does not result directly from any advantage or prerogative of either of them, such as wealth. It results only indirectly: it is necessary that one of the two classes be recognized by itself and by the other class, as advantageous and superior. This recognition is explicit or implicit."¹

Honor, implicitly or explicitly paid, is a basic phenomenon of man's social existence. It cannot exist under complete tyranny, because life is then arbitrary and unpredictable; nor can it exist under complete equality, because honor is essentially hierarchical. But complete tyranny and complete equality are only abstract extremes, which serve to demonstrate that man's social existence is put into an approved order by honor.

¹ Dupréel, Eugène, *Traité de morale* (Brussels 1932) p. 310. As one of the ways of implicit recognition Dupréel mentions imitation (p. 311). Cf. also Goblot, Edmond, *La barrière et le niveau. Étude sociologique de la bourgeoisie française* (Paris 1930). For a similar definition of class, cf. Keller, Albert G., *Societal Evolution* (New York 1915) p. 86.

THE ECONOMIC CRISIS IN THE DANUBIAN STATES¹

BY OSCAR JÁSZI

I

THE new political frontiers created in 1919 broke up the more or less unified economy of the former Hapsburg Empire into five divisions. At the same time, they brought to a halt an economic integration of the territory of the former Empire which, despite many hindrances, had proceeded under the auspices of free trade. The economic system of this region was characterized by a combination of highly developed industrial territories with backward agricultural regions. The industrialized sections, Czecho-Moravian and German, constituted scarcely one fourth of the Empire.

The southern part of the industrial region became the nucleus of the present Austria. The northern part of the region, Bohemia, Moravia and Silesia, together with the agrarian territories of Slovakia and Carpatho-Russia were united into the republic of Czechoslovakia. The comparatively most advanced part of the agrarian territory, where a certain amount of industrialization had already started, became the present small Hungary. The less developed eastern and southern parts of the agrarian territory, Bukowina, Transylvania, the Banat, Croatia, Slovenia, Dalmatia, Bosnia, were joined with even poorer regions to form the two states of greater Rumania and Jugoslavia.

II

These more or less backward agrarian regions were in a state of agricultural overpopulation even before the World War. In the absence of a strong industrial development the growing agricul-

¹ The author is indebted to the Social Science Research Council for an opportunity to spend several months in the succession states studying recent economic and political developments.

tural population found some outlet in the countries across the sea, but due to the great poverty of the peasantry, only one fourth to one third of the annual increase in population could emigrate. The result of this situation, even before 1914, was the rapid growth of an agrarian population on the verge of starvation. After the war the population pressure grew even more rapidly as a result of the immigration restrictions adopted by the United States and Canada. This emigration, which acted as a sort of safety valve against social revolution in the old monarchy, was now stopped and an extremely dangerous situation developed which was made even more acute by the menace of strong Bolshevik propaganda. The feverish economic nationalism of these new states and their desperate endeavor to industrialize the agrarian territories are connected with the urgent necessity to give some means of existence to the surplus agricultural population.

Agricultural economists have demonstrated the fact that in Europe the farther east or south a territory lies, the greater is its agrarian overpopulation. Even in Czechoslovakia, the most industrially developed of the new states, the same tendency is evident. On one hundred hectares of arable land Bohemia shows 56 persons supported by agriculture; Moravia and Silesia, 63; Slovakia, 87; Carpatho-Russia, 123. The rule applies equally in other parts of the Danube basin. On one hundred hectares of arable land, Austria had 64 persons supported by agriculture; Hungary, 72; Rumania, 97; Jugoslavia, 114. When we consider the fact that in the German Empire only 52, and in France, only 84 persons per hundred hectares live by agriculture, although the production per hectare is almost twice as much as in the Rumanian, the Jugoslavian or the Carpatho-Russian territories, we may then comprehend the gravity of the overpopulation problem in the Carpathian and lower Danubian regions. "The existence of a Rumanian or Jugoslavian agriculturist is based on one fourth of the produce realized by a French or German agriculturist."¹

¹ Dániel, Arnold, "Agrarkrise und Zukunftsaussichten um Donau und Weichsel" in *Der Oesterreichische Volkswirt* (1933) Sonderbeilage.

Although the density of the agrarian population in Hungary is lower than in Rumania and Jugoslavia, and the produce per hectare is 25 per cent greater, yet the misery of the Hungarian agricultural masses is far more conspicuous because the preponderance of the latifundist system makes two thirds of the Hungarian agricultural population proletarian or semi-proletarian, with only one to two hectares per family. We can safely say that whereas in Rumania and Jugoslavia the misery created by the agrarian overpopulation is equalized by the democratic distribution of landed property, in Hungary it has become a catastrophe. However, not even a more democratic distribution will help in the long run, if the growth of population continues at the present rate.

As a matter of fact, agrarian conditions in the lower Danubian countries are moving along this line. One can formulate it as a law that the further eastward one goes on the territory of the former Austro-Hungarian monarchy, the more rapid is the growth in population. We see this tendency even within the frontiers of Czechoslovakia. In the years between 1921 and 1930, the population of Bohemia grew 6.6 per cent, that of Moravia and Silesia 6.8 per cent, that of Slovakia 11 per cent, and that of Carpatho-Russia 20 per cent. Similarly toward the south, the annual excess of births over deaths in Austria was 2 per thousand. In Hungary 8 per thousand, in Rumania 12.5 per thousand, in Jugoslavia 15 per thousand; whereas in none of these agrarian states was the annual emigration more than 1 per thousand of the total population.¹

This great increase in the agrarian population leads to a pulverization of peasant property, to a growing land famine, and to an increasing fear among the ruling classes of political explosion. The agrarian reforms after the World War were due, to some extent, to the pressure of overpopulation. It is interesting to note, however, that nationalistic considerations were more decisive than social motives. Whereas Czechoslovakia, Rumania and Jugoslavia

¹ Interesting data concerning the gravity of the Yugoslav situation is found in Hollman, E., *Agrarverfassung und Landwirtschaft in Jugoslawien* (Berlin 1931).

have carried out more or less far reaching agrarian reforms, in order to check the tendencies toward a Hapsburg restoration or toward Magyar or German irredentism, the country in which the agrarian situation is most desperate, Hungary, was satisfied with a sham reform which left the old feudal structure practically unaltered.

III

If we survey the agrarian reforms in the five Danubian states we see that they were unable to cure, even approximately, the evils of agrarian overpopulation. Despite the great socialist influence during the first period of the Austrian Republic, nothing was done in Austria along these lines. Although the results of the Hungarian reforms are obscured by colored statistics, we can safely say that what was achieved is not more than the addition of 180,000 hectares to the territories occupied by the small proprietors. Even this wholly insufficient increase was allotted in fragments of one fifth to one hectare, which had no effect upon the economic situation of the small and landless peasantry. The Czechoslovakian agrarian reform, although moderate in character, expropriated from the large and middle estates about 550,000 hectares of forest and 600,000 hectares of arable land. At the same time, 40,000 hectares of pasture were taken away from the large estates and given to village communities. The most important part of the Jugoslavian agrarian reform was the liberation of the *kmets*, that is, former serfs under Mohammedan rule. In this way about 1,000,000 hectares of the large estates went into the possession of the *kmets*. Besides this, 500,000 hectares were distributed among smaller peasants, and 500,000 hectares of forest became community property. Although the territory expropriated was not more than one eighth of the Jugoslavian agrarian land, the reform was far reaching, considering the fact that even before the war this region was characterized by the preponderance of small peasant properties. Among all the succession states, Rumania has carried on the most radical reform, due to the dangerous proximity

of Soviet Russia. About 6,000,000 hectares were redistributed, and the agricultural land held by large estates was reduced from 40 per cent to about 10 per cent.¹

In estimating the results of these agrarian reforms, we must distinguish sharply between their social-political and their economic consequences. In the first field, the results were great and highly beneficial because they heightened considerably the consciousness and political importance of the peasant population. At the same time, the newly created administrative machinery in the victorious states, although often more corrupt and less efficient than the former Austrian or Hungarian administration, does not show the same spirit of bureaucratic or feudal domination as the previous systems did. From an economic point of view, however, especially in the lower Danubian states, the reforms often resulted in disadvantageous consequences and, in many places, brought about a considerable decrease in agricultural productivity. It is often stated by certain conservative writers and observers that the failure of these agricultural reforms demonstrates clearly the superiority of the system of large estates over that of small peasant holdings. Although it cannot be doubted that the technical equipment of the smaller peasant establishments is inferior to that of the estates, yet many other and more important causes have contributed to the unsatisfactory results. I can only refer to these briefly.

In the first place, the distribution of land was not far reaching enough and the maximum allotment was not sufficient to give real independence to the peasant families. At the same time the increasing agricultural overpopulation makes the existence of the farm population more and more difficult. A German writer, in discussing the Jugoslavian situation, has estimated that the amount of arable land should be increased every year by more

¹ It is interesting to note that the Hungarian aristocracy in Transylvania was more successful in resisting the expropriation than the Rumanian aristocracy in the old Regat. Cf. *Die agrarischen Umwälzungen im ausserrussischen Osteuropa*, ed. by M. Sering (Leipsic 1930), and the same author's *Agrarrevolution und Agrarreform in Ost- und Mitteleuropa* (Berlin 1922).

than half a million hectares in order to accommodate the increase in agricultural population.¹ In the second place, the division of the land cannot alone solve the agrarian problem if the peasant proprietors have not the necessary credit to carry on a reasonably advanced type of production. With the partial exception of Czechoslovakia, nothing has been done along this line and the new peasant proprietors have become victims of the usurious banks. In Rumania, for example, they paid 30 to 35 per cent for agricultural credit and in Yugoslavia 30 to 40 per cent was not unusual.² In the third place, the agrarian reform was vitiated by nationalistic considerations. The settlers were not chosen from among the best agricultural laborers of the country, but from war veterans or other elements to whom the governments looked to serve as bulwarks against irredentist influences. In the fourth place, the continuously growing burden of taxation, of the cost of transportation, and in some cases, of water regulations, made the situation of the isolated peasants very precarious, the more so as their properties were often in several non-contiguous pieces and occasionally very widely separated. In the fifth place, as the emigration to America ceased, the remittances from the emigrants also ceased. These had constituted, in certain regions, a very substantial addition to the budgets of peasant families.

Finally, and this is perhaps more significant than all the other causes, all the agrarian countries embarked upon a policy of artificial industrialization, which enormously increased the cost of the industrial commodities required by the peasants. On the other hand, the older industrial countries of Austria and Czechoslovakia, partly as a retort to the artificial industrialization of the grain exporting countries, partly to satisfy the powerful interests of their own great and middle land owners, imposed high protective duties on agricultural products. The result has been that whereas in Budapest, Belgrade, and Bucharest a quintal of

¹ Meyer, Hedwig, "Das Landproblem in Südosteuropa" in *Berichte über Landwirtschaft*, vol. xvii, no. 4.

² *Wirtschaftsdienst* (February 24, 1933).

wheat costs about \$1.50 gold, in Vienna and Prague it costs from \$3.50 to \$4 gold. Other agricultural products show similar differences. In this way the agriculturists of the more backward countries labor under a double difficulty. They must pay exorbitant prices for their industrial commodities at home, while at the same time the export of their products into the industrial states is heavily curtailed. This has led to the so-called "agrarian scissors" which mutilates the standard of living of the agricultural population.

For instance, it was calculated by the Hungarian Chamber of Agriculture that whereas in 1913 a plow cost 240 kilograms of wheat, in 1933 it cost 1330 kilograms; a ton of coal cost, in 1913, 45 kilograms, and in 1933, 320 kilograms of wheat. Of course, these are extreme examples, but generally speaking we can say that the buying power of agricultural products has decreased to two thirds of the 1913 figure. Conditions are similar in Rumania where, for instance, the peasant is compelled to give two kilograms of hops for one box of matches. Analogous conditions also prevail in Jugoslavia.

This disastrous agricultural situation has had various consequences. It has led, in general, to less intensive cultivation, especially on the larger and middle sized holdings, it has led to a rapid decrease in the price of land, and it has led to a catastrophic debt burden on property, which in many cases has reached 60 to 80 per cent of its total value. The final result has been that a great number of the proprietors have been unable to pay interest and taxes. In Hungary, for example, one third of the agriculturists are on the brink of bankruptcy. To prevent a final collapse the states have been compelled to introduce moratoria and other artificial defensive measures, which have shaken the very foundation of the credit system.

As a further consequence, all the states have tried to heighten by artificial measures the prices of agricultural commodities. These efforts, however, proved to be unsuccessful in the three agricultural countries which are burdened by a large export sur-

plus. The only result of such measures was a growing administrative red tape, and new opportunities for corruption. These are undermining more and more the public life of the succession states. Only the two industrial countries, which have to import a part of their food, were successful in greatly raising the prices of their agricultural products. This, of course, resulted in harm to their own industries, which depend on growing markets in agricultural countries.

Generally speaking, in all the succession states the larger and middle class proprietors are fighting desperately for the safeguarding of their rents. And we face the appalling spectacle of many sided efforts to restrict agricultural production in several fields, despite the fact that the misery of the large masses of the population becomes more and more unbearable, and there are real hunger areas in all the newly created states. In this way, the slogan of a planned economy has become a pretext for preserving the income from rent, to the detriment of those who live by their labor. Looking only at the struggle to curb agricultural imports or for export markets, one might assume that this region of the world is overfed. The truth, however, is clearly stated in the following calculation of Arnold Dániel: "In the United States an average inhabitant consumes the products of $3\frac{1}{4}$ acres of arable land and pasture, partly in the form of grains and vegetables, and partly in animal foods. One inhabitant of Germany, Czechoslovakia and Austria eats only as much as is produced by $1\frac{1}{4}$ acres, and one inhabitant of Rumania and Jugoslavia as much as is produced by 1 acre of the United States."¹ The reason for this small consumption is that the productivity of the land is too low and the population is increasing too rapidly. Increased agricultural production, however, faces a political obstacle in most of the countries of central Europe in the resistance of the still dominant landed interests represented by the holders of large and middle sized estates. This is the reason why new plans for the distribution of land are advocated not only in Hungary, where

¹ From an article not yet published.

feudalism remains intact, but also in Yugoslavia, where large and middle sized holdings are only the exception.

IV

The governments of the lower Danubian countries undoubtedly realize the extreme dangers of the situation. It is a condition, like that in certain regions of China, which could make these countries an easy prey to Bolshevism.¹ The consciousness of this peril is surely a strong motive behind the policy of artificial industrialization upon which all the agrarian succession states have embarked. It is often said that this effort for industrialization has no natural basis in these countries. This statement could easily be challenged, and it could be shown that in all the agrarian states, Rumania, Yugoslavia and Hungary, a very considerable industry could be developed on the basis of the agriculture and forestry of those countries if other conditions were favorable. All efforts for the industrialization of those countries, however, have been meager in result and entirely insufficient for the solution of the problem of overpopulation.

There are several reasons for the failure of these efforts. First of all, the possibilities for cheap transportation have conspicuously deteriorated since the dissolution of the Hapsburg monarchy. The new frontiers have disrupted the lines of communication which had been built up at important points. In Rumania, for example, on the western side of the Carpathians, the railways had been built for westward traffic. Now this area has very cumbrous connections with the Black Sea harbors. Furthermore, the governments of the new states often changed the routes of the chief lines of communication for political reasons. Main lines were converted into secondary ones and secondary lines into main lines. Economic and transportation rivalry often induced the succession states to introduce competitive traffic systems and measures impeding the smooth development of traffic between the states.

¹ Schacher, Gerhard, "Industrialisierung und Landwirtschaft in Südosteuropa" in *Wirtschaftsdienst* (September 11, 1931).

The main cause of the failure to attain successful industrialization is the prevalent condition of general poverty. A backward agriculture means backward consumption of industrial commodities. For instance, the peasant of Rumania and Jugoslavia uses one to two kilograms of iron per hectare annually, whereas the German uses 30 kilograms.¹ It is not only the agricultural technique, however, that is to blame. The very primitive industrial needs of the population are also a factor. It is characteristic for populations with low consumption levels to have an enormous extension of domestic industry, producing enough to satisfy most of the popular needs.² At the same time, primitive agriculture also means a lack of capital for industrialization. Since postwar agriculture is in a state of decreasing production whereas the population is continuously growing, consumption and capital power are less than before the war. The example of the communist dictatorship in Russia has shown that the necessary minimum of capital can be procured even under such conditions, but by extreme coercion and equalization of misery. Hungary, Rumania and Jugoslavia made another experiment after the war. They attempted to create an industry on a capitalistic basis despite the decrease in the productive forces of agriculture. This experiment was facilitated in the first ten years after the war by the high prices of agricultural products, which made considerable foreign loans possible.

The most energetic step toward industrialization was taken by Rumania, where a radical moratorium increased the consumption power of broad masses of the population. At the same time, such drastic exchange restrictions were introduced that it was practically impossible to import foreign finished industrial goods. Excluding foreign competition almost completely, the industry of Rumania developed conspicuously. Foreign capitalists who were unable to withdraw their loans due to the oppressive transfer regulations were forced to re-invest their money in the growing

¹ *Die Technik in der Landwirtschaft* (November 1933).

² Hoffmann, *Südosteuropa* (Leipsic 1932) p. 124.

industry of the country. Competent German observers believe that the industrial interests have become so powerful in Rumania that even under normal exchange conditions they will be able to maintain their monopoly by further increases in protective tariffs.¹

This artificial industrialization, however, will not solve the problem of overpopulation. The big industry and mining interests of Rumania, with their 200,000 workers, are obviously too small for a country with 18,000,000 inhabitants. The chief consumers of this limited industry are the various government agencies, which buy half of the products. The industrial competition, therefore, is more political than economic, and this opens the door to enormous graft. As this industry is entirely under the control of the large banks the financial oligarchy is very strong in the country. It is an interesting feature of the political life in Rumania that both the financial oligarchy and the peasantry are organized in strong political parties, the so-called Liberal party and the National Peasant party, whereas the middle class is totally unorganized. This explains why many strong fascist currents are developing in the country, why they enjoy the support of very influential military circles, and are favored even by the monarch. Yet the great political parties have so far been successful in repelling the fascist attacks. This means that the costs of the artificial industrialization and the maintenance of the bureaucratic organization are carried mainly by the small middle classes. It is characteristic of the political structure of the country that the number of public officials and pensioned people is smaller than in Hungary although the population of Hungary is only half that of Rumania. Under the fascist structure of Hungary, the position of the privileged middle class is very strong, and an enormous burden of taxation is put upon the shoulders of the vast masses of the population, which makes the accumulation of new capital almost impossible. That is the reason why the situation of the industries in Hungary is worse than in Rumania, although the agricultural system of Hungary is more developed.

¹ *Der deutsche Volkswirt* (December 1, 1933).

The chief victim of the dismemberment of the Austro-Hungarian monarchy was the highly developed Austrian industry, which lost the larger part of its former markets and at the same time was confronted with the competition of the artificially fostered industries of the neighboring states. Although between 1925 and 1929 there was a conspicuous improvement in the Austrian industrial situation, yet this progress was due to the influx of foreign capital, which caused the little country to live far beyond its natural limit. But even in the time of improvement the industrial equipment remained unused to a large extent and even at the peak of the business cycle, in 1928 and 1929, the number of unemployed reached almost a quarter of a million. Taking 100 as the index number of the industrial production in 1928, it was in 1929, 103; in 1931, 76; and in 1933, 67. The deterioration of industry, and the exhaustion of foreign loans seriously reduced the standard of living and became a factor in the final victory of fascism.

Even the rich heiress of the Austro-Hungarian monarchy, the Czechoslovakian republic, which inherited the most productive agricultural territories, forests and most of the industrial resources, is also living under increasingly adverse conditions. Since the artificial economic improvement of the years between 1924 and 1929, the world crisis has laid a heavy burden on Czechoslovakian industry. Taking the index of the industrial production in 1928 as 100, the number was in 1929, 104; in 1931, 81; in 1933, 58. And whereas in 1928 and 1929 the number of unemployed was reduced to 40,000, it grew continuously until in 1932 it was, on the average, 554,000, and in 1933, 873,000. The reason for this great deterioration, aside from the general crisis, is that the state overburdens the population with taxes and interest on foreign loans, and thus the income of the state goes into unproductive channels, especially military expenditures. Furthermore, in the period of prosperity an excessive amount of capital was immobilized by being put into giant construction programs in the leading cities.

These disastrous economic tendencies, common throughout the world today, are strongly aggravated in the succession states by the fact that the small states created through the dismemberment of the Hapsburg monarchy now need a far greater military and bureaucratic organization than the united monarchy did. The increase of these forces can only be roughly estimated on the basis of the available figures, yet it can be asserted with tolerable accuracy that whereas the total peace contingent of the army and navy of the former Hapsburg monarchy consisted of 411,000 persons, that is, 8 per thousand of the 51,000,000 population, the figures now are: for Czechoslovakia, 164,000, or 11.2 per thousand; for Yugoslavia, 119,000, or 8.5 per thousand; and for Rumania, 257,000, or 14.1 per thousand. The considerably limited armed forces of Austria and Hungary, determined by the peace treaties, do not represent the actual state of military conditions in these countries, because of the very great expansion of hidden military preparations.

As to the bureaucracy in the territory of the five Danubian states before and after the war, a comparison is even more difficult because of the varying bases of computation. Yet it cannot be doubted that the increase in the whole territory amounts to at least 25 per cent. It would be very difficult to find out how much this increased bureaucracy and militarism has enlarged public expenditures (the hidden outlays of the military budget make such a compilation almost impossible), yet this increase is manifest in all the states, and is the object of more and more passionate accusations. To give only one example, in the present territory of Hungary, according to an official estimate, the total public expenditures were, in 1913, 704,000,000 pengoes, whereas in 1927 they were 1,206,000,000 pengoes, or 28 per cent of the national income. And although since this date the budgetary expenses have diminished, the national income has diminished even more, and, in 1932, the budgetary expenses absorbed 40 per cent of it. The situation is the same in the other succession states. The crisis diminishes

budgetary income everywhere, yet from a decreasing national income, an ever larger proportion is absorbed by the national budget.¹

This situation is further aggravated by the fact that a large and continuously growing part of the bank capital is in the hands of foreigners. Even Czechoslovakia, which is comparatively richer in capital than the other countries and whose balance of payments was favorable until 1929, now has a passive balance. Furthermore, in the agrarian states, the loans given to landed property have become frozen and in default, whereas the industrial undertakings see less and less money for their deliveries to the state. They are paid in scrip, the value of which is more and more precarious. In some cases, as in Hungary, the banks are compelled to furnish large quantities of credit to the state in return for the scrip, and the greater part of the assets of the banks consists at present of such, or similar, pseudo-money.²

VI

This growing deterioration of the economic structure manifests itself in the widespread misery of large masses of the population, which in many regions nearly approximates a state of slow starvation. Even in the two more highly developed states, Austria and the Czechoslovakian republic, one finds alarming signs of misery. In 1933 the former had 450,000 unemployed, and the latter 800,000. In those agrarian states in which landed property is more equally distributed, the misery of the agricultural population is somewhat mitigated, whereas the industrial wage earners do not play any considerable role. In the states of the lower Danube the more wretched part of the peasants may live, as in Rumania, on *mamaliga*, a kind of corn meal mush, and in Hungary, the classic country of the latifundia, there is a large section of the population which is continuously on the brink of starvation. There are, at

¹ It was calculated, for example, that the national income of Rumania was 190 billion lei in 1929, and in 1933 it was only 93 billion lei. See *L'Europe Centrale* (January 20, 1934).

² *Der Oesterreichische Volkswirt* (September 10, 1932).

present, 300,000 industrial unemployed in Hungary who keep alive without state or communal support. A new phenomenon of the crisis is the mass misery among the formerly independent and important small artisans. It was stated in the Hungarian parliament that half of the number of artisans in the important city of Debrecen are utterly destitute.¹ But the most tragic consequence of the Hungarian economic crisis is the agricultural unemployment. A conservative magazine stated that there are about 350,000 agricultural laborers who cannot find employment even at the peak of the agricultural season.² In large communities "whole armies of aged people and children walk from house to house begging for alms and living on meager rations of corn and beets." In some large agricultural towns workers use stolen wood for fuel and many others use furniture.³ In the larger cities of the country abandoned children as a mass phenomenon constitute a serious problem for the police.⁴ This dismal description could be duplicated and extended for the other agrarian countries. It is enough to compare the figures of infant mortality and of tuberculosis in the succession states with those of the more western countries to convince oneself that the crisis of the Danubian countries is not simply a repercussion of the general economic breakdown, but is connected with special features of their social and cultural structure.⁵

VII

It follows that the chief cause of the economic crisis of the succession states lies in the fact that Czechoslovakia and Austria have an overdeveloped industry which, due to the new frontiers, has lost a considerable part of its markets, while the main difficulties of Rumania, Hungary and Jugoslavia are their agrarian over-

¹ From a speech in Hungarian parliament by John Esztergályos, May 4, 1934.

² Szilágyi, L., "A Magyar falu 1932-ben" in *Magyar Szemle* (October 1932).

³ From a speech of Anna Kéthly in the Hungarian parliament, May 4, 1934.

⁴ *Népszava* (April 29, 1934).

⁵ For further details of mass misery consult my article, "War Germs in the Danube Basin" in the *New York Nation* (November 14, 1934).

population and their difficulty in disposing of the agricultural surpluses produced.

In view of these circumstances it has often been recommended that an economic rapprochement be established among the Danubian states. It would be to the manifest interests of Czechoslovakian and Austrian industry to regain the markets which were lost after the dismemberment of the Austro-Hungarian monarchy. In the agrarian states, too, there are certain tendencies in this direction. The agriculturists in these states resent the high prices of industrial commodities under the protective tariffs. Furthermore, the lack of capital, which is due to the present policy, impedes a normal development of the agricultural system, as for instance in Rumania, where they do not have one tenth of the granary space necessary for the proper operation of the grain exporting trade. These tendencies, however, represented by Argetoianu in Rumania and by the late Gaston Gaal in Hungary, are too weak against the powerful agricultural interests in Czechoslovakia and Austria, and the banking interests in the agrarian states. The large and middle proprietors in Czechoslovakia and Austria realize that a customs union would immediately reduce their very high agricultural prices to the common level of the world price. On the other hand, the artificially created industry in Rumania, Hungary and Jugoslavia sees very clearly that without tariff protection their profits would be pushed down to a minimum. In view of the intimate connection between the large banking interests and the government, there is no possibility for any economic union in the Danube basin. The will of the leading political factors is opposed to such a union. If, in spite of this, many more new proposals for such a union are being advocated, we may be sure that they do not arise as genuine plans of the countries themselves, but rather as political propositions of France or other Great Powers in order to increase their influence in Central Europe.

Although every economic rapprochement and extension of free trade would result naturally in a better division of labor and con-

sequently in a more natural exchange of products, the mere application of such a proposal would not solve the imminent problems of these countries; namely what to do with the two million tons of agricultural surplus which a customs union as a whole would have, and which could not be sold at a price above the world level.

Some years ago the Germans asserted that they alone would be able to consume the agricultural surplus of the Danubian countries. There was some truth in this assertion because in 1927 the imports of Germany of the five chief grains was 74.8 million quintals, in 1928, 54.4 millions. Beginning with 1927, however, the agricultural imports of Germany have continuously declined and now Germany could offer very little to the Danubian states. The same situation applies to Italy.¹ Only a general European customs union could dispose of the surplus of these agrarian states. However, the western states of Europe are more interested in their transatlantic connections through which they find industrial markets in the agricultural countries of the Americas.

This situation has nearly come to a deadlock. There is another way out, however, involving the solution of the problem of the agrarian overpopulation.² This problem, as we saw, cannot be solved on the basis of the artificial development of industry. First, the basis for industry must be established by a considerable improvement in the production of the great masses of the population, of the small peasantry which still carries on its medieval technique of production. Such a reform could be carried out without insurmountable financial problems. This increase of produc-

¹ For the implications of the former international trade situation see Pasvolksy, Leo, *Economic Nationalism of the Danubian States* (New York 1928).

² No one has developed so clearly and forcefully the necessity of rebuilding central Europe on the basis of an agrarian democracy as Arnold Dániel in a series of important works: *Föld és Társadalom* (Budapest 1911); *Többszermelés* (Budapest 1913); "Die Möglichkeiten der ungarischen Landwirtschaft und ihre Bedeutung für Mitteleuropa" in *Archiv für Sozialwissenschaft und Sozialpolitik* (June 1918); "Das Vordringen der Agrardemokratie in Europa und die Lage des Grossgrundbesitzes in Ungarn" in *Archiv für Sozialwissenschaft und Sozialpolitik*, vol. lxii, nos. 2-3. From another angle, but not less vigorously, Francis Delaisi has attacked the problem in his *Les Deux Europes* (Paris 1929).

tion, which the great and middle agricultural property cannot afford under the present price level, would be highly remunerative for the small peasantry on their three to six hectares of land, as they work with their own hands without using hired labor. This would mean that the large and the middle agricultural proprietors would fail in the competition. As a matter of fact, Stambolisky, the Bulgarian "peasant Lenin," had such a plan in mind against the large peasant proprietors (as there are no really large estates in Bulgaria) seven years before Stalin's campaign against the kulaks.¹ Under the present disastrous conditions a small peasant family can only bring to the market, at most, 20 to 30 per cent of its product. With the growth of production, the marketable surplus would more than proportionately increase. The money income of such families would be increased even in the case of lower agricultural prices. Not only the present state of slow starvation would cease to exist, but at the same time the wealth and capital would increase so that national industry could be developed. The agrarian states could also get more advantageous commercial treaties with foreign countries since, with a more prosperous population, western industry would find far better markets, provided a developed peasantry could break the tariff monopolies of the big banks. This statement will appear somewhat paradoxical. It could be argued that if the per hectare production of the peasants increases, it would add to the exportable surplus. Yet the truth is that it would be easier to consume the larger agricultural surplus than the smaller one. The agrarian states of the Danube are unable to consume their agrarian products not because they produce too much but because they produce too little. French and German agriculture produces more, not only per hectare but also per head of population, than Rumania and Jugoslavia, yet in normal times not only this production is consumed, but great quantities of agricultural products are imported.

¹See Dániel, Arnold, "Agrarkrise und Zukunftsaussichten um Donau und Weichsel," *loc. cit.*, in which the reader will also find a more detailed account of the technical ways and means of carrying out such a plan.

In Rumania and Jugoslavia and also in the other Danubian territories it is agrarian overpopulation, extreme misery and the great poverty of the whole country which is responsible for the fact that even the small quantities produced are not consumed, and remain export surpluses which bring disaster unless they are sold in foreign countries.

At the same time, only a regenerated agriculture could bring about a higher standard of living of the population. This would be a necessary presupposition for the union of the Danubian countries in the form of a confederation. Only a strong, prosperous and cultured peasantry could break down those agricultural and industrial monopolies which at present close the door to Danubian cooperation. This regeneration of agriculture leading up to a political confederation is now the supreme task of the Danubian countries. Without this, misery will continuously increase with the rapid growth of the population. In addition, without a solid agrarian background and with the present artificial industry, the middle classes will develop more and more parasitical tendencies, and the desperate struggle for government positions will only intensify militant nationalism.

Under such conditions a war or a revolution is inevitable. After a bloody chaos mass misery may find its solution. This will come, however, not through a peaceful reform of the agricultural production on the basis of independent peasant holdings and cooperation but possibly in the form of the bread factories of Russia and with dictatorial methods. This might also lead to a new political union but this union would not be the federation of free Danubian countries, it would mean Slav unity under Russian dictatorship.

COMPETITION AND PRICE CHANGES

In his interesting article in the last issue of *Social Research*, Dr. Walther Lederer seems to overlook that his conclusions are valid only under one important presupposition, not expressly stated by him, namely *discontinuity* of the variations by which the structure of production adapts itself to price variations.

Dr. Lederer's argument can be summarized as follows: (1) Technical progress, represented at the outset by an additional enterprise which takes the initiative with respect to technique, may, in case of a relatively small demand elasticity and a given income flow, lower the price to such a degree that the curtailment of production due to the shutting down of the enterprises which encounter losses is larger than the initial expansion by the new enterprise. (2) Therefore prices must rise again, and marginal producers, who were formerly excluded, are now enabled to compete because of the higher prices; as a result, prices will fall again, and even to a lower level than in the first phase.

Even if one grants the basic supposition of a sudden expansion of production on account of technical progress, one cannot admit as a typical phenomenon in industrial production the instantaneous shutting down of some marginal producers and the equally instantaneous reexpansion of production afterwards. If the variations in production go on, not abruptly but as a continuous process, evidently a new

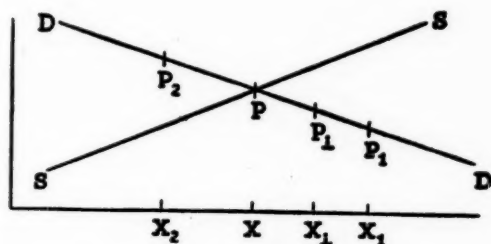


FIGURE 1

equilibrium will be reached, in which the curtailment of production due to the losses of marginal firms will have excluded a sufficient number of high cost firms and thus bring costs of the new marginal producer to an equality with the new price as determined by the in-

creased supply and the demand elasticity. Or, to express it otherwise, there is a new equilibrium point, X_1 , between X , the initial amount produced in the original equilibrium, and X_2 , the amount produced immediately after the opening of the new plant. (DD denotes the demand function; SS the supply function in the original equilibrium; X_2 the amount of supply, as curtailed by the shutting down of "extra-marginal" producers, according to Dr. Lederer's argument; P, P_1, P_2 , the corresponding prices.) In Dr. Lederer's opinion, the variations from X to X_1 , X_1 to X_2 , etc., go on so abruptly that the point X_1 is always jumped over.

The question whether supply variations have this abrupt form or not is a question of fact. In agriculture, indeed, a discontinuous process of production, simultaneous for all producers and with a considerable production period, exists, though for various reasons the mechanism has not worked out in the manner described by Dr. Lederer; the hog cycle is a better example and has always been explained on lines of thought akin to Dr. Lederer's. But I doubt very much that this situation is characteristic for industry. Dr. Lederer seems not quite consistent in his assumptions, since he assumes on the one hand an initial expansion of production, caused by the erection of a single new plant (which would correspond to a broken supply curve), but on the other hand he works out the point C in his FIGURE 1 (indicating the initial curtailment due to the price fall) under the assumption of a continuous variation in production. This, however, is a minor point. More important is the fact that his whole argument supposes imperfect competition, since to the action of a single entrepreneur is attributed a finite variation in price. Obviously his results are not applicable to perfect competition, unless the very great number of entrepreneurs, characteristic in this case, are induced by a special set of causes (equality of costs and long production period) to act simultaneously and in the same manner (as in the instance of the hog cycle); for the existence of very great numbers of entrepreneurs usually guarantees a smooth and continuous supply curve, i.e. allows very small changes in supply. But also in Dr. Lederer's case of imperfect competition, these variations will be continuous for the most part. A new big enterprise, technically on a superior standard, may force one or a few big enterprises to shut down: at the same time some still "intra-marginal" enterprises will reorganize, and together with the newcomer which is still expanding, will adjust the supply in the market to the conditions of demand, i.e. come very near to the point X_1 . Moreover, the shutting down of the few high cost enterprises will not oc-

cur instantaneously and simultaneously, because these enterprises will be able, though to *different* degrees, to continue production for some while at prime costs. Dr. Lederer tries to evade this difficulty by equating quite generally prices to prime and not total costs; but this device is inconsistent with his fundamental assumption of a system of equilibrium.

HANS NEISSER

University of Pennsylvania

Dr. Neisser in his remarks on my paper seems to have overlooked the fact that it was not my intention to build up a "typical" case of changes in industrial production, i.e. a case which is entirely empirical, omitting only those characteristics in which it differs from other cases, which are similar in the main point. The aim was, as has been pointed out (*Social Research*, November 1934, pp. 505-6), to determine whether a frictionless and prompt working competition is able to reestablish a new equilibrium after the old one has been disturbed or whether it must be assumed that an equilibrium which has been observed empirically was brought about by other means.

If that can be proved it would mean that not the freedom of competition, as has been claimed, but other forces are finally responsible for establishing equilibrium. Therefore we have to study Dr. Neisser's arguments as to whether they refer to essential events in the battle of competition or whether they represent merely one of these other influences.

The argument that a continuous enlargement of production through a continuous opening of new plants might lead to an equilibrium was purposely not discussed in my paper, which intended to study at first the simpler case of the equilibrium status and leave the complications to later investigations. But it does not seem that the assumption that several new plants are appearing on the market at the same time is entirely fictitious, especially if one takes into

consideration the fact that the new situation which leads to the construction of new plants is simultaneously given for all entrepreneurs whether it is a fall in the interest rate, or a new invention or a change in the best location of production. If there are no outside obstacles, the new plants would be erected at the same time and, since the period of production under similar technical conditions does not differ greatly from one plant to the other, the finished product would appear on the market at almost the same time.

The fact that, after the fall of prices which follows, not all plants whose prime costs of production are below the market price are shut down, but some of them continue to work, cannot be explained only on the assumption that somebody must have promised to take over eventual losses or that the enterprise itself has sufficient liquid reserves from which wages and raw materials can be paid. This, however, is probable only with those enterprises which were so far away from the margin before the disturbance of the equilibrium occurred that the selling price of the product covered not only the prime costs but also left a surplus over the total costs. A management which keeps a plant running even with losses must expect the losses to be only temporary, and fear that it might lose the market even for later times if it discontinues to take part in it. If this expectation is not a vain hope it must be based on a certain knowledge of the market of the other competitors as well as of the demand. The management must know that the fall of prices is caused not by a reduction of demand but by an increase of supply, and that there are plants still less modern which might be shut down, so that the price will rise again.

It is absolutely correct, as Dr. Neisser states, that a slow process of reducing production leads to slowly increasing prices until the point is reached where the prices are so high that no more plants need to be shut down. But my theory, as pointed out at the end of my article, is that it is the forces which retard the process of economic competition and not the essential forms of free competition itself that make possible the establishment of new equilibria. This statement, however, has not been criticized in Dr. Neisser's discussion.

Dr. Neisser is right in saying that my basic assumption that the marginal plants earn only their prime costs is inconsistent with the idea of long run equilibrium. That assumption, however, represents a fortuitous point in a dynamic system where an equilibrium has been reached. This equilibrium certainly cannot last indefinitely, but only until the implements of the marginal plants are worn out, which, however, may involve a period of several years. I believe that in the

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theory of a dynamic economic system only this definition of equilibrium can be applied usefully.¹

WALTHER LEDERER

New York City

¹I take this occasion to correct the calculations on p. 514, footnote 2. Instead of: "If the elasticity of costs of production is 1" it should read:

If the supply of means of production is 1:

According to the general formula: $\frac{x}{y^n} = C$

$$\frac{C'B}{\frac{1}{2}(Op' + Bk')^1} = \frac{OA}{\frac{1}{2}(OP + Ac)^1}$$

Since $OP > Op'$ and $Ac > Bk'$

$OA > C'B$ (The fluctuations in the quantity of production tend to increase.)

Because of the smaller production $C'B$, the price will be raised from Op' to OP' .

Since $C'B \cdot OP'^n = OA \cdot OP^n$

and $OA > C'B$

$OP' > OP$ (The fluctuations of the prices tend to increase.)

The following conclusions may be derived from this calculation. If the elasticity of supply of means of production is larger than zero and smaller than infinity an equilibrium under my assumption can never be reached, regardless of the elasticity of prices. The case of elasticity being zero has been described on page 512. If the elasticity of the supply of means of production is infinity, i.e. when a change in demand does not affect the prices, we come to the case which was set up in FIGURE 1 on page 508.

$$\frac{C'B}{\infty} = \frac{OA}{\infty}$$

This equation does not fix the relation between $C'B$ and OA , because the equation holds true, regardless of whether $C'B$ is larger, equal to, or smaller than OA . That means that other factors, in that case the elasticity of prices, have to determine the relation.

BOOK REVIEWS AND NOTES

BRANDEIS, LOUIS D. *The Curse of Bigness*. [Miscellaneous Papers of Mr. Justice Brandeis, ed. by Osmond K. Fraenkel, as arranged by Clarence M. Lewis.] New York: Viking. 339 pp. \$3.50.

The main thesis of this book is familiar to the readers of *Other People's Money, Business: a Profession* and the other writings of Mr. Justice Brandeis. There is, the author thinks, a definite compass enclosing the human capacity of ruling economic enterprises efficiently; there is a limit in the concentration of business which cannot be overcome without waste and final disaster. Monopolies tend to affect and to harm the public, and reach inevitably a political relevance which is injurious to the economic and spiritual welfare of the country. They are what might be called, if I may paraphrase the author, negative public enterprises: they may or may not be ripe for socialization, but they do rule the interests of the public of the disadvantage of the public. Therefore legislative and judicial policy must be directed to a ceaseless supervision of business concentration. "The real choice," wrote Mr. Justice Brandeis in 1912, "is between regulated competition and regulated monopolies" (p. 104).

All this sounds like a necessary reminder of something that too many people forget today, in the loose talk of freedom and regimentation. It is an echo of the anti-trust campaigns started in this country more than half a century ago, having their roots deep in English political history, mainly in Locke, and before Locke in the English revolution against the Stuarts, and before the revolution in medieval canonistic theorists. But it is refreshing for our contemporary ears to hear that in 1912 the main economic problem was one of regulation: regulation of competition or of monopolies. The foreigner newly landed in this country, who had read certain recent books by official personages, would be relieved to learn that 1912 was not entirely an era of cannibalism. He would be helped to understand how the good intentions of the present Roosevelt administration were filtered through political and economic ideas worked out by progressive thinkers in a process of decades. Perhaps the only thing that the foreigner would fail to understand is where the Roosevelt administration stands now, whether it intends to regulate competition or monopoly.

About Mr. Justice Brandeis, on the contrary, there are no doubts: he is for regulation first, and for regulation of competition second. His dissenting opinions in the *Ice* and the *Liggett* cases are reprinted

in this book. They should be required reading for all the people who gramophonically repeat how Mr. Justice Brandies, especially in the Ice case, contradicted himself. Freedom means for him a certain far sighted and responsible way of regulation, not a shadowy abstraction or an equivalent for lawlessness. As he proves in the Liggett case, his real enmity to bigness is quite different from that envy of bigness characteristic of so many trust-busters. Above all Mr. Justice Brandeis is well aware of economics, both in its reality and in its theories; he knows that he is laboriously moving against the stream. He has foremost in his mind that distrust for all fatalisms, which is the true mark of the virile liberal. He knows how to marshal the intricacies and the pitfalls of economic details, and how to impose, when the chance comes, his definite political philosophy upon the tumult of economic happenings.

This book, published at this time, will perhaps remind some readers that alongside of technology and economics, law still exists; and that the final knitting together of all the threads spun in emergency times is a matter, as Harold Laski says, of legal statesmanship. Nobody will deny the importance of the contribution to reconstruction and to recovery given by engineers, economists, accountants, and so on; but it should be obvious that every economic or technological project, if enforced, is to be promulgated by legal orders and becomes a source of legal orders. It is an ominous prospect to have the economic jungle cleared by thickening the legal jungle. The technicians of the law have still some work to do, especially if they take inspiration from the unflinching courage and the reasoned determination animating this whole book.

MAX ASCOLI

ZIMMERMAN, ERICH W. *World Resources and Industries*. New York: Harpers. 1933. 842 pp. \$4.

While specialization and the splitting of research into ever narrower subdivisions are still characteristic of the social sciences, the view is gaining ground that the most fruitful field of study is to be found in the boundary areas lying between the several sciences. These borderland studies are essential to the synthesis of the sciences. The book under review is particularly valuable for its successful use of the synthetic approach. It deals with a subject which is half geographical, half economic, a combination which is called in Germany *Geopolitik*. Its aim is to introduce the student to an understanding of economic and geopolitical problems in their essential interrelationships. Part

one discusses the concept of resources; part two analyzes and synthesizes the material on the resources of agriculture, while a third part deals with the resources of industry. The volume is far from being exhaustive in respect to details, because of its world-wide scope and the deductive approach. But the 842 pages contain an amazing amount of original thought and stimulating reflection.

Geographical approaches alternate with those of pure economic theory; technological considerations are followed by an examination of sociological consequences; topics of cost accounts and overhead, of peak load and equalization of supply, are included along with studies in the economic history of special industries.

This is not a book to read in one day, but a rare collection of keen essays on political economy in its broadest aspect. It is a book one may recommend without qualification to the intelligent student.

KARL BRANDT

ROSENBERG, HANS. *Die Wirtschaftskrisis von 1857-1859*. [Vierteljahresschrift für Sozial und Wirtschaftsgeschichte, ed. by H. Aubin, Beiheft 20.] Stuttgart-Berlin: Kohlhammer. 1934. 210 pp. 9 RM.

Historians have not always shown themselves to be good economists. This work, however, represents a pleasant exception. Dr. Rosenberg describes the promotion prosperity of 1850-56 and the ensuing crisis. In the course of his work he emphasizes especially those factors which are familiar to us as a result of the prosperity and crisis of the last decade: the establishment of new enterprises, especially in heavy industry and transportation; speculation with its familiar consequences, such as the expansion of credit and the rise of all types of dishonest projects; the consequent scarcity of money; the collapse of speculation and of the price structure; runs on the banks; paralysis of investment activities; demand for state subventions and for protective duties, etc. Nominal wages rose less than prices in the period of prosperity and fell less in the period of crisis.

The volume of foreign trade rose considerably in the years of cyclical upswing and fell very little in the crisis years. This expansion of the economy from its previous narrow limits to a world economy, as a result of new means of transport and the overseas discoveries of gold and silver, Rosenberg considers a material indication that the period of full capitalism began in this decade. The extreme nature of the prosperity and crisis is to be understood, according to the author, as the unchecked upswing and the resulting reaction of the newly developing economic system. The expansion of markets, the increase in the

purchasing power of those employed resulting from the reduction of prices and the increase in population finally provided the stimulus to new investments and new prosperity. The combination of politics, including economic policy, and economic development, which the author continually works out, is very interesting and informative.

The author's introductory thesis, in which he announces that he intends to present only what actually happened without seeking to prove any particular general theory, naturally does not mean that he had no such theory in mind. Where he approaches economic explanation of the cycle, the author seems for the most part to start from the purchasing power hypothesis.

WALTHER LEDERER

TAX RESEARCH FOUNDATION. *Tax Systems of the World. A Year Book of Legislative and Statistical Information Including All the States of the United States.* [Prepared under the direction of The New York State Tax Commission.] 5th ed. Chicago: Commerce Clearing House. 1934. 282 pp. \$10.

In the social sciences the most simple and the most complicated methods of scientific organization are used side by side. In the field of theoretical analysis the work of the individual scholar, the craftsman's method, is still predominant. In the collection and analysis of factual material the laboratory or factory method of a highly developed division of labor is increasingly applied. This volume proves that the "putting out system" may also be highly efficient in scientific work. Not the greatest endeavor of any individual scholar, not the single effort of the best equipped institute, could have achieved this work. It is planned and edited by Mayne S. Howard as General Editor and James W. Martin, Paul Studenski, Clarence Heer and M. Slade Kendrick as editors of the divisions or sections, but the work itself is done by more than 200 scholars and institutions scattered over the world.

This annual publication is very aspiring in its goal. It wants to be or to become, according to the introduction, not only an annual encyclopaedia, a manual, a textbook and a sourcebook, but "a whole library of taxation." This fifth edition, very intelligently planned, meticulously executed and excellently presented, already goes far in accomplishing this ambitious end. The work contains 118 tables dealing with federal, state and municipal taxes in the United States and 58 tables concerning foreign countries. Both parts provide a survey of the tax laws, tax administrations and tax revenues of the in-

dividual states or countries and comparative tables of special taxes. There is a valuable survey of treaties concerning double taxation and other restrictions on the taxing power of various countries. Some important data other than those on taxation are included, especially in the international part, as for instance an analysis of the political and budgetary systems of foreign countries. For 63 countries the national revenues, for 19 countries the national, state and local revenues are included. There are, however, no tables of public expenditures. In this respect the comparison of public expenditures in 37 countries, published by the German Statistical Office, may serve as a supplement to this work.

This yearbook is still developing. Some gaps will be filled, some inequalities smoothed out in later issues. But even in its present stage it is a unique, comprehensive and reliable source of information which relieves every student of taxation from a great deal of cumbersome work in collecting legislative and statistical data.

GERHARD COLM

SHOTWELL, JAMES T., ed. *The Origins of the International Labor Organization*. [The Paris Peace Conference, History and Documents, published for the Carnegie Endowment for International Peace; James B. Scott, general editor.] 2 vols. New York: Columbia University Press. 1934. 497 and 592 pp. \$10 set.

Part XIII of the Treaty of Versailles, the only part not dictated by hate and resentment but based on the idea of peace, is the only one which has stood the test of the succeeding years. The International Labour Organization, established by Part XIII of the Treaty, has worked successfully these fifteen years. Many books have been written on its history and documents have been published in European countries, but there did not exist any systematic collection of the material on its origins. The gap is filled by this book, with its valuable contributions by Harold B. Butler, Sir Malcolm Delevingne, Ewald Kuttig, Samuel McCune Lindsay, Leifur Magnusson, Ernest Mahaim, Edward J. Phelan, Charles Picquenard, Carol Riegelman and James T. Shotwell. The records of the negotiations before, during and after the Peace Conference, the documentary history, are laid open; documents containing proposals for the organization and the international conventions, recommendations and treaties are included in the book. They are interpreted by persons who participated in the Conference itself and who can give an impression of the circumstances under which they were produced. The material is selected according to the

special interest of the United States. The negotiations at Paris are set against the background of the prewar years and labor demands during the war.

Important critical surveys which may clear up misinterpretations are, for example, the negotiations which led to the adoption of the Constitution of the International Labour Organization and its relation to the League of Nations. A special chapter deals with the problem of American cooperation and of American interests in the aims of the International Labour Organization.

Of special interest is the attitude of the outstanding figure of the committee, its chairman, Samuel Gompers. "His heart had never been wholly in the work. His philosophy of the labor movement, implied in speech after speech, was clearly antagonistic to labor legislation." At the end, however, his mind was made up and he decided to fight for the International Labour Organization.

The interpretations, as well as the documents and studies in these two volumes, will be of the highest value for students of politics, economics and history.

FRIEDA WUNDERLICH

BUELL, RAYMOND LESLIE, ed. *New Governments in Europe*. [Publication of the Foreign Policy Association.] New York: Nelson. 1934. 440 pp. \$2.50.

It is the most recent part of history which is the most useful to know and the most troublesome to learn. Thus, the authors of this work which is both concise and reliable have good chances of finding a wide and grateful public among the English speaking students of history, politics, constitutional law and economics. It is up to date, too, since it embraces the latest events up to the spring of 1934. Half of the book is due to Dr. Dean, who has written the introductory chapter "The Attack on Democracy" as well as the sections on "Fascist Rule in Italy" and "The Political Structure of the Soviet State" (pp. 15-35, 36-126, 315-395); her colleague on the F.P.A. staff, Dr. Mildred S. Wertheimer, has described "The Nazi Revolution in Germany" (pp. 126-260). The President of the Association has contributed a short preface; Professor Malbone W. Graham (Los Angeles) has written on "Stability in the Baltic States" (Finland, Estonia, Latvia, Lithuania, Poland, pp. 261-314) and Mr. Bailey W. Diffie (City College, New York) on "Spain under the Republic" (pp. 396-440). If the latter article is, perhaps, less satisfactory than the others, this may be due to the fact that Spanish politics are still more

in flux than those of other nations and therefore still less ripe for a comprehensive treatment. But this and all the other sections are endowed with a wealth of statistical and bibliographical notes which will prove helpful for further studies. Most of the book is a revised and coordinated edition of the respective articles in the fortnightly Foreign Policy Reports.

Throughout the book is based on the same methods: it is essentially of an informatory character, the authors wish to narrate chiefly factual conditions and their transformation. The causal connections are, of course, always traced, but the authors emphasize consciously the political elements. They describe the development of one political situation out of another situation of the same kind. The economic, sociological, psychological and cultural background is sketched in the introductory chapter, but in the book proper the concatenation is always visible and the background fades into—the background. The causal interpretations are on the whole the usual ones, and I personally disagree with them; but this is, of course, not meant to be disparaging and it would not here be possible to justify my standpoint. I would merely like to point out that I cannot concur in connecting, as several of the authors do, and in fact almost everybody does, an overwhelming part of the European pandemonium with the peace treaties. Not so much these treaties themselves as the war, of which they were a natural by-product, and the postwar propaganda, for which they offered indeed a most serviceable subject, account for it. I subscribe to a famous passage of Herr Hitler's *Mein Kampf* in which he calls the Treaty of Versailles "a means to an end . . . in the hands of a government which desires to whip up national passions to the boiling point" (quoted p. 159). The fact, that after the war "the trend toward dictatorship" has carried as well the defeated as certain of the victorious and also some neutral states, and that it has gained strength in the same measure as the most mischievous parts of the treaties have become dead letters, ought to speak for itself.

The more the authors of this matter-of-fact book have restricted themselves to the highly controversial political issues, the more remarkable and praiseworthy appears their unbiased attitude. Of course, their American, and therefore democratic, leanings are often transparent; on the other hand this impartiality is sometimes carried so far that the collaborators withhold their judgment even in questions of mere facts, e.g. the question of the alleged Fascist outrages after the march on Rome (p. 56).

I would have welcomed clear cut definitions of the many political

slogans, which are at the mercy of every penny-a-liner and thus become more nebulous every day: e.g. what is "fascism" as distinct from other brands of dictatorship? But it is unavoidable that every reader of a short book with an immense and passionately interesting subject would have liked to see certain aspects and problems treated, which the authors obviously sacrificed to others deemed more important or suitable. Of such questions the sole judges must be authors and editors. Nevertheless I feel that I may and must draw the attention to one most important point which I have not seen adequately dealt with in this or any of the numerous similar books I have had the privilege or the duty of reading, the omission of which, therefore, seems to be due not to a deliberate plan but to oversight. This is the connivance (partly friendly, partly cowardly) which the administration of justice by all its many organs—governments (no matter whether liberal, clerical or socialist), courts, prosecutors, police—displayed toward the various revolutionary movements. Such movements can never be stopped by ordinary means once they have acquired a certain momentum. But in their beginning the many illegal preparatory acts which are inevitably involved could always have been checked (and in the case of communist movements were checked!) by the correct and courageous application of the law and the skilful handling of discretionary powers. To give one example among thousands: what would have been the consequences if after the Munich Beer Hall Putsch of November 9, 1923, the Bavarian court had *not* accorded extenuating circumstances to Herr Hitler, and had *not* sentenced him to the minimum punishment of five years of "fortress," or the Bavarian government had *not* released him after a few months? Certainly, Dr. Wertheimer would not have had the opportunity of writing her illuminating article and this would have been most unfortunate.

HERMANN KANTOROWICZ

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